

STANDING COMMITTEE ON DEFENCE

(2016-2017)

(SIXTEENTH LOK SABHA)

MINISTRY OF DEFENCE

DEMANDS FOR GRANTS (2017-18)

**CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND
DEFENCE PLANNING**

(DEMAND NO. 21)

Presented to Lok Sabha on 09.03. 2017

Laid in Rajya Sabha on .03. 2017



LOK SABHA SECRETARIAT

NEW DELHI

March, 2017 / Phalguna, 1938 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2016-17)

Maj Gen B C Khanduri, AVSM (Retd)

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Chairperson

Lok Sabha

2. Shri Dipak Adhikari (Dev)
3. Shri Suresh C Angadi
4. Shri Shrirang Appa Barne
5. Shri Thupstan Chhewang
6. Col Sonaram Choudhary(Retd)
7. Shri H D Devegowda
8. Shri Sher Singh Ghubaya
- 9.* Shri B Senguttuvan
10. Dr Murli Manohar Joshi
11. Km Shobha Karandlaje
12. Shri Vinod Khanna
13. Dr Mriganka Mahato
14. Shri Rodmal Nagar
15. Shri A P Jithender Reddy
16. Shri Ch Malla Reddy
17. Shri Rajeev Shankarrao Satav
18. Smt Mala Rajya Lakshmi Shah
- 19.# Shri Partha Pratim Ray
20. Shri Dharambir Singh
21. Smt Pratyusha Rajeshwari Singh
- 22.** Shri G Hari
- 23.\$ Capt Amarinder Singh

Rajya Sabha

1. Shri K R Arjunan
2. Shri A U Singh Deo
3. Shri Harivansh
- 4.^ Shri Rajeev Chandrasekhar

5. Shri Madhusudan Mistry
6. Shri Praful Patel
7. Shri Sanjay Raut
8. Dr Abhishek Manu Singhvi
9. Smt Ambika Soni
10. Dr Subramanian Swamy
- 11.@ Shri Om Prakash Mathur

* Nominated w.e.f on 13.02.2017
** Ceased to be Member of the Committee w.e.f. 13.02.2017
\$ Ceased to be Member of the Committee w.e.f. 23.11.2016
Nominated w.e.f. 02.01.2017
@ Ceased to be Member of the Committee w.e.f. 10.10.2016
^ Nominated w.e.f. 10.10.2016

SECRETARIAT

Smt Kalpana Sharma	-	Joint Secretary
2 Shri T G Chandrasekhar	-	Director
3 Smt Jyochnamayi Sinha	-	Additional Director
4 Smt Preeti Negi	-	Executive Assitant

INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2016-17), having been authorised by the Committee, present this Thirty-First Report on 'Demands for Grants of the Ministry of Defence for the year 2017-18 on Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)'.

2. The Demands for Grants of the Ministry of Defence were laid on 9 February, 2017 in Lok Sabha. The Committee took evidence of the representatives of the Ministry of Defence on 22 and 23 February, 2017. The draft Report was considered and adopted by the Committee at their Sitting held on 3 March, 2017.

3. The Committee wish to express their thanks to the officers of the Ministry of Defence and representatives of the three Services for appearing before the Committee and furnishing the material and information which the Committee desired in connection with examination of the Demands for Grants.

4. For facility of reference and convenience, Observations/Recommendations of the Committee have been printed in bold letters in Part II of the Report.

New Delhi

07 March, 2017

16 Phalguna, 1938 (Saka)

MAJ GEN B C KHANDURI, AVSM (RETD)

Chairperson

Standing Committee on Defence

REPORT

PART I

CHAPTER I

CAPITAL OUTLAY ON DEFENCE SERVICES

DEMAND NO. 21

Demand No. 21 pertains to Capital Outlay on Defence Services, i.e., Army, Navy, Air Force, Joint Staff, Ordnance Factories, Defence Research & Development Organisation and Director General Quality Assurance(DGQA). The Capital Outlay on Army includes Land, Aircraft & Aeroengines, Heavy and Medium Vehicles, Other Equipments, Military Farms, Procurement of Rolling Stock, Ex-Servicemen Contributory Health Scheme, Rashtriya Rifles, National Cadet Corps, Construction Works, National Defence Academy and Married Accommodation Project. Capital Outlay on Navy includes Land, Aircraft and Aeroengines, Heavy and Medium Vehicles, Other Equipments, Construction Works, Married Accommodation Project, Naval Fleet and Naval Dockyards/Projects.

Capital Outlay on Air Force includes Land, Aircraft and Aeroengines, Heavy and Medium Vehicles, Other Equipments, Construction Works, Married Accommodation Project, North Eastern Projects and Special Projects. Capital Outlay on Ordnance Factories includes Machinery and Equipment, Works and Suspense. Capital Outlay on Research & Development Organization includes Machinery and Equipment and Works.

Projections made by the three Services and Allocations made by the Ministry of Finance

1.2 The figures for the Capital Outlay on Defence Services, as furnished by the Ministry of Defence, are as under:

(Rs in Crores)

Demand	B.E. 2016-17	R.E. 2016-17	B.E. 2017-18
Capital Outlay on Defence Services (Capital expdr of all Services / Deptts) (Excluding R&D, DGO, MF & ECHS , NCC and DGQA& RR in BE & RE 16- 17) (Excluding MF& ECHS in BE 17-18)	78,586.68	71,700.00	86,488.01

1.3 The projections made by the three Services, allocations made at BE and RE stage and the expenditure incurred during the last two years of the Eleventh Plan, the four years of the Twelfth Plan, and the projected outlay and BE allocation for the year 2016-17, separately for Capital and Revenue Heads, are as follows:-

REVENUE

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2010-11	Army	62,234.60	56,769.11	63,917.31	59,941.83	62,383.60
	Navy	10,723.76	9,329.67	11,147.73	9,833.52	9,979.02
	Air Force	17,483.60	15,210.73	15,249.01	15,003.55	14,551.07
2011-12	Army	77,350.49	63,609.80	74,252.98	70,810.98	69,133.47
	Navy	13,658.47	10,589.06	14,450.48	12,146.93	11,903.80
	Air Force	20,015.46	15,927.95	16,123.16	16,137.38	16,772.83
2012-13	Army	83,861.62	77,327.03	83,120.33	75,520.20	76,689.82

	Navy	15,835.71	12,548.02	15,765.78	11,401.91	11,833.65
2013-14	Air Force	19,887.73	17,705.81	20,942.36	17,103.72	17,529.02
	Army	93,355.38	81,119.20	91,294.13	85,516.45	85,030.92
	Navy	19,164.69	12,194.43	15,059.73	13,163.94	13,034.36
2014-15	Air Force	25,922.64	18,295.10	22,505.98	19,283.27	19,093.70
	Army	1,04,837.88	91,844.02	99,420.15	97,501.40	95,973.22
	Navy	19,570.57	13,975.79	15,753.51	13,935.79	13,678.87
2015-16	Air Force	27,073.41	20,506.84	22,368.56	20,185.86	19,741.06
	Army	1,09,758.22	1,03,315.91	1,04,408.45	1,00,106.78	1,02,847.18
	Navy	18,546.58	15,525.64	15,838.30	14,635.18	14,992.04
2016-17	Air Force	29,632.28	23,000.09	23,000.09	20,377.09	21,020.95
	Army#	1,15,561.78	1,13,732.72	1,34,870.40	1,18,908.19	90,008.66*
	Navy	18,502.56	17,424.79	19,348.23	17,813.99	12,560.31*
	Air Force	25,728.60	23,655.83	23,817.22	23,817.52	15,108.60*

* Expenditure upto end of December 2016

(# Includes allotment to NCC, DGQA, Military Farms, Rashtriya Rifles and ECHS which were shifted to modified Grant No. 20-MoD(Miscellaneous) in FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with the exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years).

CAPITAL

Year	Service	BE	(Rs. in Crore)			
			RE		Expenditure	
			Projected	Allocated	Projected	Allocated
2010-11	Army	21,633.04	17,250.84	19,177.55	15,641.16	15,856.08
	Navy	15,221.78	12,137.85	17,890.87	15,323.77	17,140.18
	Air Force	31,667.56	25,251.72	25,271.72	24,266.79	23,625.42
2011-12	Army	25,611.68	19,210.69	20,641.69	16,005.69	14,947.82
	Navy	26,882.60	14,657.83	21,482.18	17,459.08	19,211.52
	Air Force	36,186.10	30,282.03	30,282.03	27,734.78	28,841.18
2012-13	Army	28,234.60	19,237.80	18,971.09	15,749.30	14,760.69
	Navy	28,643.19	24,766.42	25,002.85	18,266.42	17,759.88
	Air Force	36,950.52	30,514.45	36,999.62	30,517.95	32,980.11
2013-14	Army	25,528.08	17,883.83	19,271.59	14,967.25	14,433.29
	Navy	33,775.53	24,149.03	27,290.06	20,418.98	20,358.85
	Air Force	64,607.84	39,208.84	65,825.22	37,750.44	38,614.93
2014-15	Army	41,936.15	26,533.60	23,832.67	21,933.54	18,586.73
	Navy	28,253.21	23,832.67	22,903.31	18,507.07	22,269.66
	Air Force	62,408.33	33,710.68	38,948.19	33,710.68	32,796.42
2015-16	Army	31,938.67	27,342.42	27,845.33	24,230.47	20,703.70

	Navy	26,268.13	25,003.24	25,152.20	19,740.06	19,874.69
	Air Force	46,191.96	33,686.75	35,780.78	30,442.15	31,198.32
2016-17	Army#	37,960.18	26,943.08	34,706.12	24,026.86	17,205.64*
	Navy	30,223.31	22,000.09	22,530.04	19,596.28	12,613.87
	Air Force	41,266.41	29,795.42	36,512.95	28,239.86	23,770.25

* Expenditure upto end of December 2016

(# Includes allotment to NCC, DGQA, Military Farms, Rashtriya Rifles and ECHS which were shifted to modified Grant No. 20-MoD(Miscellaneous) in FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with the exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years).

1.4 The Capital Outlay provides allocation for Land & Construction Works of the three Services, capital expenditure of various Defence Departments and for Capital Acquisitions of the Services, etc. as given below:

(Rs in Crores)

	BE 2016-17	RE 2016-17	BE 2017-18
Revenue (Net)	1,43,869.46	1,49,051.34	1,72,773.89
Capital (Acquisition)	69,898.51	62,619.36	69,473.41
Capital (other than Acquisition)	8,688.17	9,080.64	17,014.60
Total Capital	78,586.68	71,700.00	86,488.01
Total (Rev+Capital)	2,22,456.14	2,20,751.34	2,59,261.90

Further Details of Capital Budget

(Rs in Crores)

	BE2016-17	RE 2016-17	BE 2017-18
Capital (Acquisition including DGOF Supplies)	69,898.51	62,619.36	69,473.41
Capital (other than Acquisition)			
Land & Works of 3 Services (including Married Accommodation Projects)	8,688.17	9,080.64	8,650.63
DRDO, DGOF and Other			8,363.97

Defence Departments			
Total Capital)	78,586.68	71,700.00	86,488.01

1.5 The Ministry of Defence furnished the following data regarding allocation to the various Services in respect of Capital Budget for the year 2017-18:

(Rs. in crores)

Service	BE projection	BE allocated
Army#	42,485.93	25,246.35
Navy	27,546.49	18,603.71
Joint Staff	1,045.07	744.45
Air Force	62,048.85	33,570.17
DGOF	1,582.56	803.68
R&D	11,431.64	7,552.32
DGQA	15.00	7.97
Total	1,46,155.54	86,528.65

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which were shifted to modified Grant No. 20-MoD(Miscellaneous) in FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with the exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years).

1.6 The above tables depict the budgetary provision for Capital acquisition for the three Forces from 2010-11 onwards and BE projected and allocated for 2017-18. The budgetary allocations for Capital acquisition has declined for the three Services not only at the RE stage of 2015-16 in comparison to BE 2015-16 but also for the RE during the year 2016-17 in comparison to BE 2015-16. Similarly, against a projection of Rs. 1,46,155.54 Crore for capital budget in 2017-18, Rs. 86,528.65 have been allocated from BE 2017-18 for various Services (Army, Navy, Joint staff, Air force, DGOF, R&D and DGQA). This decline in the allocation for Capital acquisition will definitely affect several procurement proposals and contracts which are to be finalised in 2017-18. The budgetary cut at BE 2017-18 against the projection indicate that all the pending procurement projects would not go through unless the Government increases the allocations at the Revised Estimate stage.

1.7 When asked to state the areas where compromises have been made or likely to be made due to reduced budgetary allocation against the projections made by the three Services and other organisations/heads, the Ministry in its written reply has submitted as under:

'Under the revenue segment, provision is first made for salary and other obligatory expenses. The balance allocation available is distributed to meet the requirement of stores (including ordnance),

transportation (of personnel and stores), revenue works and maintenance, etc. Allocations are reviewed at Revised Estimates stage to cater for requirements which cannot be met by BE allocations.

In so far as the Capital segment is concerned, funds are first set aside to meet the projected Committed Liabilities likely to materialise during the year. The remaining allocation is distributed to meet the projected requirement for other items. The procurement plan for Capital modernization schemes may have to be reviewed and re-prioritized, based on available funds.'

1.8 The Ministry was asked to provide data regarding the items planned during the last five years of Capital budget, the achievement made and shortfalls, if any. In its reply, the Ministry stated as under:

'In accordance with the provisions of Defence Procurement Procedure (DPP), the acquisition of Weapon Systems and equipment for the Armed Forces flows from the Long Term Integrated Perspective Plan (LTIPP). The current LTIPP spells out the capability desired to be achieved by the Armed Forces over a 15 year period (2012-27). The LTIPP is translated into specific assets to be acquired, in the form of Services Capital Acquisition Plan (SCAP), covering a five year period.

From the Services Capability Acquisition Plans (SCAP), a list of equipment and weapon systems required to be procured immediately is listed in the form of the Annual Acquisition Plans (AAP). The AAP covers a period of 2 years and rolls over to the next financial year. The AAP is prepared and prioritised in consonance with the Budget allocation for capital acquisitions. During the last five years and current year, the allocations for capital acquisitions have been utilised as indicated below:-

(Rs. in crores)

Year	BE	RE	Actuals
2011-12	56510.49	53292.30	56281.88
2012-13	66032.24	57395.46	58768.86
2013-14	73444.59	66406.41	66850.30
2014-15	75148.03	66151.73	65582.06
2015-16	77406.69	65400.00	61761.80

Ratio for Capital and Revenue outlay

1.9 The ratio for Capital and Revenue outlay (actual expenditure), for the three Services, during each year of the Eleventh Plan upto fourth year of the Twelfth Plan is given below:

Year	Service	Revenue	Capital
2007-08	Army	74	26
	Navy	44	56
	Air Force	43	57
	Overall	59	41
2008-09	Army	82	18
	Navy	45	55
	Air Force	43	57
	Overall	64	36
2009-10	Army	80	20
	Navy	41	59
	Air Force	43	57
	Overall	64	36
2010-11	Army	80	20
	Navy	37	63
	Air Force	38	62
	Overall	60	40
2011-12	Army	82	18
	Navy	38	62
	Air Force	37	63
	Overall	60	40
2012-13	Army	84	16
	Navy	40	60
	Air Force	35	65
	Overall	61	39
2013-14	Army	85	15
	Navy	39	61
	Air Force	33	67
	Overall	61	39

2014-15	Army	84	16
	Navy	38	62
	Air Force	38	62
	Overall	63	37
2015-16	Army	83	17
	Navy	43	57
	Air Force	40	60
	Overall	65	35
2016-17(RE)	Army	83	17
	Navy	48	52
	Air Force	46	54
	Overall	68	32

1.10 From the information furnished by the Ministry it is seen that from 2012-13 onwards, the 'Capital' component of the budgetary allocation has decreased in comparison to 'Revenue' component of the Budget.

Under spending

1.11 As per the information furnished by the Ministry, BE, RE, Actuals and under/overspending in respect of Capital budget for Defence Services for the last five years is as given below:

(Rs. in crores)

2011-12	BE	RE	Actuals
Army#	19,210.69	16,005.69	14,947.82
Navy	13,729.12	16,570.37	18,433.21
Joint Staff	928.71	888.71	778.31
Air Force	30,282.03	27,734.78	28841.18
DGOF	399.96	299.96	278.48
R&D	4,628.30	4628.30	4616.28
DGQA	20.00	16.00	7.10
Total	69,198.81	66,143.81	67,902.38
2012-13	BE	RE	Actuals
Army#	19,237.80	15,749.30	14,760.69
Navy	23867.62	17367.62	16835.64
Joint Staff	898.80	898.80	924.24
Air Force	30514.45	30517.95	32980.11
DGOF	399.96	399.96	349.07
R&D	4640.00	4640.00	4644.43
DGQA	20.00	5.00	4.94
Total	79,578.63	69,578.63	70,499.12

2013-14	BE	RE	Actuals
Army#	17,883.83	14,967.25	14433.29
Navy	23408.95	19799.71	19707.52
Joint Staff	740.08	619.27	651.33
Air Force	39208.84	37750.44	38614.93
DGOF	435.96	465.96	465.34
R&D	5057.60	5257.60	5241.52
DGQA	5.45	12	11.12
Total	86,740.71	78,872.23	79,125.05
2014-15	BE	RE	Actuals
Army#	26,533.60	21,933.54	18,586.73
Navy	22,803.80	17,792.26	21,625.39
Joint Staff	1,028.87	714.81	644.27
Air Force	33,710.68	33,710.68	32,796.42
DGOF	1,206.56	660.24	746.19
R&D	9,298.25	7,147.52	7,482.52
DGQA	6.19	6.19	5.46
Total	94,587.95	81,965.24	81,886.98
2015-16	BE	RE	Actuals
Army#	27342.42	24,230.47	20,703.70
Navy	24,080.90	19,032.25	19,153.54
Joint Staff	922.34	707.81	721.15
Air Force	33,686.75	30,442.15	31,198.32
DGOF	760.07	500.05	679.76
R&D	7,788.40	6,480.15	7,490.86
DGQA	7.12	7.12	10.98
Total	94,588.00	81,400.00	79,958.31
2016-17	BE	RE	Actuals(upto December 2016)
Army#	26,935.81	24,017.86	17,198.92
Navy	21,041.22	18,742.18	12,167.23
Joint Staff	958.87	854.10	446.64
Air Force	29,795.42	28,239.86	23,770.25
DGOF	735.68	715.29	377.18
R&D	6,865.73	6,792	4,620.42
DGQA	7.27	9.00	6.72
Total	86,340.00	79,370.29	58,587.36

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which were shifted to modified Grant No. 20-MoD(Miscellaneous) in FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with the exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years).

1.12 Details of the heads/services under which there was under-spending in the Capital Budget, for the last five years, with reference to final grant are as follows:

(Rs. in crores)

Year	Service	Final Grant (Net)/ MA	Expenditure	Underspensing
2011-12	Army	85,768.14	84,081.29	1,686.85
	R&D	10014.31	9893.84	120.47
	DGQA	677.59	665.19	12.40
2012-13	R&D	9884.94	9794.80	90.14
2013-14	Army	100562.12	99464.21	1097.91
	Joint Staff	2105.33	2080.78	24.55
	Air Force	57991.69	57708.63	283.06
	R&D	10934.17	10868.89	65.28
	DGQA	771.15	766.02	5.13
2014-15	Army	122873.68	114559.95	8313.73
	Joint Staff	2305.20	2280.90	24.30
	DGOF	2322.83	1577.05	745.78
	R&D	13716.14	13257.98	458.16
2015-16	Joint Staff	2539.39	2532.72	6.67
	DGOF	1936.05	1101.62	834.43
	R&D	13540.11	13289.28	250.83

1.13 The Committee while examining Demands for Grants 2016-17 had observed that Capital expenditure had never remained under control. It was felt that Capital head invariably ends off with unutilised funds. During the year 2011-12, at RE stage, Army was allocated Rs. 16,005.69 crore but was able to utilise only Rs. 14,947.82 crore. During the year 2012-13, at RE stage, Army was allocated Rs. 15,749.30 crore, but again it was able to utilise only Rs. 14,760.69 crore. In the same year, Navy was allocated Rs. 23,867.62 crore at BE stage but it could spend only Rs. 16,835.64 crore. During the year 2013-14, the Army was allocated Rs. 14,967.25 crore at RE stage, but it was able to spend only Rs. 14,433.29 crore. Similar was the case with Navy, which was not able to spend in full the allocation made at RE stage. Again, in the year 2014-15, Army was allocated Rs. 21,933.54 crore at RE stage but spent only Rs. 18,586.73 crore and Air Force was able to spend only Rs. 32,796.42 crore against the allocation of Rs. 33,710.68 crore at RE stage. During the year 2015-16, Army was allocated Rs. 24,230.47 crore but was able to spend only Rs. 20,703.70 crore.

1.14 Further, the allocation for Capital Acquisition for Army which was Rs. 26,935.81 crore during 2016-

17, was reduced to Rs. 24,017.86 crore. However, upto December 2016, Army was able to spend only Rs. 17,198.92 crore.

The allocation for Capital Acquisition for Navy which was Rs. 21,041.22 crore during 2016-17 was reduced to Rs. 18,742.18 crore at RE stage. However, upto December 2016, Navy was able to spend only Rs. 12,167.23 crore.

The allocation for Capital Acquisition for Air Force during 2016-17 was Rs. 29,795.42 crore which has been reduced to Rs. 28,239.86 crore at RE stage. However, upto December 2016, Air Force was able to spend only Rs. 23,770.25 crore.

Capital Budget as 'Non Lapsable' and 'Roll on'

1.15 The details of additional allocation sought by the three Services under RE 2016-17, as furnished by the Ministry of Defence, are as under: -

(Rs in Crore)

	Budget Estimate 2016-17	Projected Revised Estimate 2016-17	Additionality projected	Revised Estimate allocation
Army				
Revenue (Net)	113,732.72	1,34,870.40	21,137.68	1,18,908.19
Capital	26,943.08	34,706.12	7,763.04	24,026.86
Total	140675.80	169576.52	28,900.72	1,42,935.05
Navy				
Revenue (Net)	17,424.79	19,348.23	1,923.44	17,813.99
Capital	22,000.09	22,530.04	529.95	19,596.28
Total	39,424.88	41,878.27	2,453.39	37,410.27
Air Force				
Revenue (Net)	23655.83	23817.22	161.39	23,817.52
Capital	29795.42	36512.95	6717.53	28,239.86
Total	53451.25	60330.17	6878.92	52,057.38

1.16 When asked to provide reasons for reduction in budget allocation for Revised Estimates 2016-17, the MoD submitted as under:

'While conveying the reduced ceilings, Ministry of Finance did not give any reason. In spite of taking up the matter of reduced allocations with the Ministry of Finance at the highest level, the request of this Ministry for additional funds was not acceded to by the Ministry of Finance.

However, during budget discussion with MoF, the slow pace of expenditure was cited by MoF as the reason for reducing allocations/ not granting additional allocations.'

1.17 The Committee had recommended in their various reports to have Capital Budget as 'Non Lapsable' and 'Roll on'. The Ministry of Defence in the information furnished to the Committee on the subject matter in the past had, in general, not favoured the proposal for constituting a Non-lapsable Defence Capital Fund Account. The Ministry, submitting the following data for capital budget, had stated that there had been no occasion in the last few years where any substantial amounts were available as surplus for rolling over:

Year	BE	RE	Actuals	%age utilisation
2010-11	60,000.00	60,833.26	62,056.00	102.01
2011-12	69,198.81	66,143.81	67,902.38	102.65
2012-13	79,578.63	69,578.63	70,499.12	101.32
2013-14	86,740.71	78,872.23	79,125.05	100.32
2014-15	94,587.95	81,965.24	81,887.42	99.91
2015-16	94,588.00	81,400.00	80,081.64	98.38% (RE)
		79,483.28 (Modified Appropriation)		100.75% (MA)
2016-17	86,340.00			

1.18 The Committee, referring to the above data, observed that when compared to BE allocation from 2011-12 onwards, it was quite clear that percentage utilization of capital budget was never 100%. In this regard, the Committee desired to know as to how could the Ministry plead that no substantial amounts were available for rolling over to the next year. The Ministry responded as under:

'It may be seen from the above data that except for 2010-11, every year Ministry of Finance had imposed a cut on BE allocations at RE stage. Due to cut imposed by Ministry of Finance, expenditure had to be restricted to Revised Estimate figures. The figures indicated above clearly indicate that except for 2014-15 and 2015-16, there has been over-spending in comparison to RE allocations. In 2014-15 and 2015-16 also more than 99% and 98% respectively of the funds allocated under RE have been expended.'

1.19 Contrary to the stance taken in the past, the Ministry of Defence has, in its Brief submitted to the Committee on 22.12.2016, favoured creation of 'Non-Lapsable Defence Capital Modernization Fund'. The Ministry of Defence, in the said Brief, submitted as under:

'...the issue regarding creation of a non-lapsable Defence Modernization Fund has gone through three different phases in the past. While initially it was not favoured by the Ministry of Defence, MoD later on drew up a detailed accounting procedure for operationalising the Fund with the

approval of Ministry of Finance and processed the proposal for opening of the accounting heads. A provision was also made for the said Fund in the interim Budget of 2004-05 but not in the General Budget presented in July 2004 by which time it was again felt that the usefulness of such a Fund would be limited. In January 2005, Ministry of Finance had issued guidelines on creation of Reserve/Corpus Funds, which imposed a virtual ban on creation of new funds. As per these instructions, transfer to and from such funds is to be decided as part of the budgetary process. This implies that approval of the Ministry of Finance and the Parliament is mandatory for any transfers of money to such Funds and utilization of money out of these Funds. Consequently, it was felt that creation of a Fund that does not require approval of Ministry of Finance/ Parliament for transfer of money or its utilization will not be possible. This was also conveyed to the Standing Committee.

Thus, since July 2004, MoD has been taking the stand that the utility of such a Fund is limited and therefore, the proposal is not being pursued. This has been stated in response to various Parliament questions and in the status report on implementation of the recommendations of the Standing Committee on Defence. However the Honourable Standing Committee has time and again raised the issue of setting up of a non-lapsable Defence Capital (Modernization) Fund. On further consideration in consultation with the Services and after taking into account the views of various think tanks, it has been felt that the utility of creation of a non-lapsable, roll over fund for Capital cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects. The Ministry therefore has reviewed its stated position taken so far and proposes to take up the case for setting up of a capital non-lapsable, roll-on fund afresh with Ministry of Finance immediately.'

1.20 Intimating the latest position in regard to creation of 'Non-Lapsable Capital fund Account' for the Services, the MoD has submitted as under:

'A proposal for obtaining 'in-principle' approval of Ministry of Finance on creation on Non-lapsable Capital Fund Account has been sent on 9.2.2017 after obtaining approval of Hon'ble Raksha Mantri. Response from Ministry of Finance is awaited.'

1.21 The Committee also sought the comments of the Ministry of Finance on the Ministry of Defence's opinion that the utility of creation of a Non-Lapsable, roll over fund for meeting capital expenditure cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds. The Ministry of Finance submitted as under:

'The perceived advantage in creation of a dedicated reserve/corpus fund in the Public Account is the non-lapsability of balances available in the corpus at the close of the financial year. However, the balance available in the corpus/reserve fund at the commencement of the financial year is not available automatically for being spent by any Ministry/Department on the intended schemes. For spending the balance available in any reserve/corpus fund, approval of the Parliament through valid appropriation is necessary.

Standing Committee on Finance, in one of its recommendations, recommended that the unutilized balances lying in the reserve/corpus fund kept in the Public Account be written back to Consolidated Fund of India for being utilized on the schemes where additional funds are required.

This Ministry has also been advocating against creation of reserve/corpus fund in the Public Account without matching receipts either in the form of tax receipts, cess receipts or any form of levy etc.

It may not be advantageous in creating a reserve/corpus fund in the Public Account. The requirement of Ministry of Defence for meeting its Capital Modernisation and acquisitions can be addressed through normal budgetary mechanism.'

1.22 When asked to delineate the measures by way of which a Non-Lapsable Capital Fund Account could be created/operationalised for the Defence Services, the Ministry of Finance submitted as under:

'The desired objectives of Ministry of Defence towards meeting its contractual liabilities, acquisitions, defence modernisation can be achieved through normal budgetary mechanism. There is no specific advantage for creating a reserve/corpus fund for this objective.

The Ministry would consider recommendations made in this regard with an open mind with a view to evolving an effective and efficient arrangement.'

1.23 It is pertinent to mention in this context that in the Union Budget 1998-99, the Non-lapsable Central Pool of Resources for the North Eastern region was constituted with approval of Parliament. The broad objective of the Non-lapsable Central Pool of Resources scheme was to ensure speedy development of infrastructure in the North Eastern region by increasing the flow of budgetary financing for new infrastructure projects/schemes in the Region.

1.24 For identification of projects under Non-Lapsable Central Pool of Resources, States are asked to submit, before the beginning of the financial year, a prioritized list of projects with a short write up on each project. The Committee to administer the Non-Lapsable Central Pool of Resources is headed by Secretary, Ministry of Development of North Eastern Region and has representation from Ministries of Finance and Home Affairs. The priority accorded by the state to the projects in the 'priority list' is only a suggestive and the Committee scrutinizes the projects in the lists in order to identify and finally retain the suitable projects for detailed examination. In examining the priority, the Committee is, inter-alia, guided by considerations such as priority to projects of economic infrastructure, drinking water supply and other health and sanitation projects, the overall utilisation and absorption of funds by a particular state in the past years, Past performance of a state in implementing projects in the particular sectors etc

1.25 After approval of the Committee, funds are sanctioned and released by the Ministry of Development of North Eastern Region on submission of an implementation schedule. Subsequent releases are made only after receipt of Utilisation Certificate of earlier releases.

Committed Liabilities and New Schemes

1.26 Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in previous years. Under the DSE, Committed Liabilities constitute a significant element in respect of the Capital acquisition segment, since one project may span several financial years. As such, it is important to track the element of Committed Liabilities which hold first charge on the budget allocation. Inadequate allocation for committed liabilities could lead to default on contractual obligations.

1.27 Details of allocations under Defence Services Estimates vis-à-vis New Schemes (NS) and Committed Liabilities (CL) from 2012-13 onwards is as under:

(Rs. in crores)

Year	Service	Budget Estimate		Revised Estimate		Actual Expenditure	
		CL	NS	CL	NS	CL	NS
2012-13	Total Defence Services Estimate	1,93,407.29		1,78,503.52		1,81,775.78	
	Army	5552.63	2500.00	4930.58	1075.67	4987.34	764.41
	Navy	22531.89	720.82	16031.89	720.82	15685.56	616.43
	Air Force	26433.00	2100.00	26176.72	4616.13	26360.14	4692.86
2013-14	Total Defence Services Estimate	2,03,672.12		2,03,672.12		2,03,499.35	
	Army	7024.31	493.98	4582.03	1645.26	4804.07	1643.47
	Navy	22295.84	442.86	19194.54	50.50	19114.95	50.50
	Air Force	35038.62	2010.44	34865.52	1780.12	35003.46	1914.53

2014-15	Total Defence Services Estimate	2,29,000.00		2,22,370.00		2,18,694.18	
	Army	12856.5 2	2084.15	8790.06	2084.15	8561.03	1443.63
	Navy	21248.0 7	663.92	16411.32	663.92	16102.4 6	4803.08
	Air Force	29173.4 0	2644.99	28982.4 0	2644.99	29509.9 2	1299.47
2015-16	Total Defence Services Estimate	2,46,727.00		2,24,636.00		2,25,894.85	
	Army	15740.7 5	1541.06	9875.21	3160.07	8705.82	1438.14
	Navy	22248.1 2	1112.78	17200.0 0	1193.38	17788.3 9	591.34
	Air Force	28246.5 3	3264.09	23942.4 0	4701.00	24334.1 7	4711.50
2016-17	Total Defence Services Estimate	249099.00				-	
	Army	12492.9 2	2086.08	9928.56	1986.00	-	-
	Navy	18763.7 7	1600.00	15300.0 0	2838.75	-	-
	Air Force	24306.0 2	3250.00	26,245.15		-	-

1.28 When asked whether during 2016-17, the Ministry of Defence has sent its requirement for additional funds to Ministry of Finance for consideration at supplementary/RE stage and the negative impact on various projects as a result of less allocations, if any, the Ministry submitted as under:

'The additional requirements projected for RE 2016-17 and BE 2017-18 were not acceded to. On the other hand, allocations for RE 2016-17 were reduced from BE level as can be seen from above table.

Negative impact on projects as a result of less allocation, service-wise, is as under:

i. Army - The reduced allocation will impact cash outgo in committed payments. Deferment of these payments will impinge on budgetary allocations in next Financial year. No funds are

available for initial advance payment of medium-range surface-to-air missile (MRSAM) (Rs. 1579 crore) which has been forwarded to Cabinet Committee on Security (CCS) for approval.

ii. Navy – The reduction will adversely affect the progress of large number of New Schemes which are at Competent Financial Authority (CFA) approval and advanced contract Negotiation Committee (CNC) stages and planned for contract conclusion in FY 16-17. As a result, Navy would not be able to either conclude the contracts or make the advance payments as per the contracts. Delaying these schemes will not only have a cascading effect on the budget of FY 17-18, but also result in delays in acquiring capability towards modernisation and bridging existing capability gaps.

iii. Air Force –Due to lesser allocation than projection at RE stage, requirement of additional funds has been projected in Third and final batch of supplementaries.'

1.29 When asked how the Ministry of Defence has managed with the available resources when the Ministry of Finance did not provide the requisite amount, the MoD submitted as under:

'Based on budget allocation, schemes have been prioritized to ensure that at least critical and urgent capabilities are acquired. The allotted resources have been judiciously utilized towards Committed Liabilities and New Schemes. The outgo towards CL has been reviewed on a monthly basis at concerned Service Headquarters. Slippages in outgo due to delays in achieving milestones in ship building contracts, delivery schedules of equipments/ platforms, etc were regularly monitored and funds were re-appropriated. Proper training and obsolescence management ensures that the available equipment are optimally utilized.'

1.30 Data on Capital expenditure during the last two years of the Eleventh Plan and the first three years of the Twelfth Plan on committed liabilities and new schemes in respect of the Army is given below:

YEAR	Capital Modernisation		Other Capital Expenditure	Total Capital Expenditure
	Committed Liabilities	New Scheme		
2010-11	3,478.62	3,739.17	8,638.29	15,856.08
2011-12	4,800.94	507.08	9,639.80	14,947.82
2012-13	10,107.38	764.41	3,888.90	14,760.69
2013-14	8,783.02	1,643.47	4,006.80	14,433.29
2014-15	12,423.40	1,444	4,719.33	18,586.73

(Rs. in crores)

For NCC, DGQA and Ordnance Factories, the Capital expenditure is given below:

	(Rs. in crores)				
SERVICE/DEPTT.	2010-11	2011-12	2012-13	2013-14	2014-15
NCC	3.13	3.15	0.69	0.68	0.37
DGQA	15.01	7.10	4.94	11.12	5.46
Ordnance Factories	454.22	278.48	349.07	465.34	746.19

Regular budgetary support for DPSUs is not provided out of the Defence Services Estimates. However, provision for occasional loan/equity for Defence PSUs is made out of MoD (Civil) budget.

1.31 The Ministry did not provide reply to the query of the Committee regarding details of budget is provided for committed liability and new schemes for the various Defence Services for 2017-18.

Chapter II

Procurement Policy for the Defence Services

Defence Procurement Policy

2.1 As part of the implementation of the report of the Group of Ministers on reforming the National Security System, new Defence Procurement Management Structures and Systems were set up in the Ministry of Defence in 2001. In order to implement the provisions laid out in the new Defence Procurement Management Structures and Systems, the procedure for Defence Procurement was revised. The Defence Procurement Procedure - 2002 came into effect from 30 December 2002 and was applicable for procurements flowing out of 'Buy' decision of Defence Acquisition Council (DAC). The scope of the same was enlarged in June 2003 to include procurements flowing out of 'Buy and Make' through Imported Transfer of Technology (ToT) decision. The Defence Procurement Procedure has since been revised in 2005, 2006, 2008, 2009, 2011 and 2013, enhancing the scope to include 'Make', 'Buy and Make (Indian)' categories, concept of 'Offsets' and Ship Building procedure.

2.2 In order to achieve enhanced self-reliance in defence manufacturing and to leverage the economic opportunity present in developing the Indian defence industry, MoD constituted a Committee of Experts, to recommend suitable amendments to DPP-2013. Based on Government's experience in the defence procurement process and the recommendations of the Committee of Experts, DPP 2016 has been evolved.

2.3 The aim of the DPP is to ensure timely procurement of military equipment, systems and platforms as required by the Armed Forces in terms of performance capabilities and quality standards, through optimum utilisation of allocated budgetary resources; while enabling the same, DPP will provide for the highest degree of probity, public accountability, transparency, fair competition and level-playing field. In addition, self-reliance in defence equipment production and acquisition will be steadfastly pursued as a key aim of the DPP.

2.4 Capital Acquisition schemes are broadly classified as, 'Buy', 'Buy and Make' and 'Make'. Under the 'Buy' scheme procurements are categorised as 'Buy (Indian - IDDM)', 'Buy (Indian)' and 'Buy (Global)'. The three categories under the 'Buy' scheme refer to an outright purchase of equipment. Under the 'Buy and Make' scheme, the procurements are categorised as 'Buy and Make (Indian)' and 'Buy and Make'. The two categories under 'Buy and Make' scheme refer to an initial procurement of equipment in Fully Formed (FF) state in quantities as considered necessary, from the appropriate source, followed by

indigenous production in a phased manner through comprehensive Transfer of Technology (ToT), pertaining to critical technologies as per the specified range, depth and scope.

2.5 In decreasing order of priority the procurement of defence equipment, under this procedure are categorised as follows:-

- (a) Buy (Indian - IDDM)
- (b) Buy (Indian)
- (c) Buy and Make (Indian)
- (d) Buy and Make
- (e) Buy (Global)

2.6 As seen from above, the main preferred category in the Defence Procurement Procedure is now 'Buy Indian- Indian Designed, Developed and Manufactured (IDDM)' which is a new category. 'Buy (Indian-IDDM)' category refers to the procurement of products from an Indian vendor meeting one of the two conditions: products that have been indigenously designed, developed and manufactured with a minimum of 40% Indigenous Content (IC) on cost basis of the total contract value or products having 60% IC on cost basis of the total contract value, which may not have been designed and developed indigenously.

2.7 In addition to the above listed categorisation, the 'Make' categorisation, aims at developing long-term indigenous defence capabilities. Depending upon factors such as Indian industry's capability, access to technology, time frame required and available for development, the 'Make' category of procurement would be pursued in isolation, in sequence or in tandem with any of the five categories under 'Buy' or 'Buy and Make' classifications, with a separate heading under Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP).

2.8 When asked about the allocated budget for the implementation of major objectives of the policy, the Ministry has stated:

"The key objective of the policy i.e. "to achieve substantive self-reliance in the design, development, production of equipment/ weapon systems/ platforms" is pursued through liberalization of FDI policy & Industrial Licensing policy, simplification of export procedures, streamlining of defence offset guidelines, creating level playing field for Indian private and public sector companies, providing preference to 'Buy (Indian-IDDM)', 'Buy (Indian)'& 'Buy and Make (Indian)' categories of capital acquisition over 'Buy (Global)' category in Defence Procurement

Procedure, to make the country self-reliant in defence production. However, budget allocation for a financial year is made for total acquisition of defence equipment requirements of the Services.'

Procedural Delays in Procurements

2.9 As per the Ministry of Defence, procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness.

2.10 During oral evidence, the Defence Secretary enumerated the steps taken to fasten the process of Defence procurement as under:

'As part of performance in Defence financial management, we have taken steps to delegate substantial powers to the Service Headquarters to augment their operational capabilities. The new delegation of financial powers schedules with inherent powers to the Services was finalized by the Ministry of Defence in September 2016 and it has received a very positive feedback from the Services.

Similarly, the substantial powers for expeditious procurement of ammunitions, spares, armaments and equipment were also delegated. Today the Services are fully authorised to take up any revenue procurement of ammunition up to a minimum level of 10 (l). Similarly, to facilitate deployment men and equipment in UN Peacekeeping Missions in a time-bound manner, the new schedule of delegation has been promulgated with the Vice Chief of Army Staff as competent financial authority for expeditious finalization of procurement cases.

I would also like to inform the hon. Committee that the Cabinet Committee of Security has accepted the proposal of the Ministry for enhancing capital procurement powers from Rs.500 crore to Rs.2000 crore. This will facilitate speedy processing of capital acquisition cases in MoD itself. As a result, all procurement upto Rs.3000 crore now will not be required to be sent to the Cabinet Committee on Security. This is a big change from the past where anything above Rs.500 crore would go to Cabinet. Now, the Ministry is competent to make decision in respect of procurement up to Rs.3000 crore.'

2.11 During a presentation in oral evidence, the Ministry of Defence informed the Committee of the following steps taken under DPP 2016 to achieve timely, efficient and effective procurement:

- Timelines reduced from 80-117 to 70-94 weeks
- Reduction in Acceptance of Necessity validity- From 1 Year to 6 Months
- Draft Request for Proposal to accompany Statement of Case for Acceptance of Necessity
- Field Trials in conditions where most likely to be deployed
- Maximum use of certification and simulations

- Delegation of powers to Acceptance of Necessity according authorities
- Fast Track Procedure for expeditious procurement of urgent operational requirement items in war and peace

Accountability and transparency in defence procurement

2.12 During examination of Demands for Grants 2017-18, the Ministry of Defence, in a powerpoint presentation, enumerated following provisions for ensuring accountability and transparency in defence procurement cases:

- Guidelines for penalties in business dealings with entities - including Policy on putting on hold, suspension and debarment for corrupt practices, unfair means etc
- Execution of Pre-contract Integrity Pact (PCIP) for all cases above 20 crs
- Complaints regarding violation of PCIP to be looked into by independent monitors
- Guidelines for handling of complaints- time bound, aligned to CVC/ DoPT guidelines and in keeping with government policy
- Ascertaining vigilance status of L1 vendor before seeking Competent Financial Authority (CFA) approval
- Violation may result in calling off negotiations, cancellation of contract, encashment of bank guarantee and debarment from future procurement

Increasing dependence on foreign suppliers for military hardware

2.13 The Ministry apprised the Committee that modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment defence capabilities. The budget for the same is taken from the Capital segment of the defence budget.

2.14 The total expenditure for the three Services on direct payments to foreign vendors for Capital Acquisitions over the last seven financial years is as per the table given below. The Ministry has stated that equipments are being optimally exploited on operational platforms.

(Rs. in crore)

Financial year	Expenditure on defence equipment		
	Air Force	Navy	Army
2009-10	4226.28	4576.83	1659.36
2010-11	4364.82	4746.88	800.39
2011-12	15258.11	6532.37	424.82

2012-13	19220.95	5968.80	884.84
2013-14	20927.55	12577.81	1365.71
2014-15	14655.75	6884.00	3452.61
2015-16	12477.45	6939.76	3004.91

2.15 The Committee find that dependence on foreign suppliers for military hardware is increasing. Therefore, details of the defence equipment/items being imported were sought. The Ministry supplied the following information:

'Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the DPP. Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. During the last two financial years (2014-15 and 2015-16), 108 contracts with total value of Rs. 1,12,736.81 crore have been signed for capital procurement of defence equipment, out of which 73 contracts involving a value of Rs.72,303.34 crore were signed with Indian Vendors and 35 contracts involving a value of Rs. 40,433.47 crore were signed with Foreign Vendors.

Country-wise details of contracts signed during last three given years are given below:

(Rs. In Crore)

Name of Country	2013-14		2014-15		2015-16	
	No. of Contracts	Value	No. of contract	Value	No. of contract	Value
Russia	2	1341.72	7	6084.72	3	947.19
Israel	5	3751.00	1	875.49	4	2979.26
USA	7	6787.02	2	57.64	4	22049.97
France	2	298.96	3	1537.05	0	0
Others	5	1072.15	5	2706.82	6	3195.33
Total	21	13250.85	18	11261.72	17	29171.75
Indian vendors	21	10676.36	29	53597.80	44	18705.54
Grand total	42	23927.21	47	64859.52	61	47877.29

The major defence equipment imported during the last three years include rockets, simulators, Armament Repair facility for EKM, submarines and component level repair facility for Tanks from Russia, Unmanned Aerial Vehicles, Radar, fire control system for tanks and missiles from Israel, aircraft, Helicopters and simulators from USA And Bimodular Charge system(BMC) High Zone Modules of Artillery Guns from France.'

2.16 The Ministry also stated that the promotion of indigenization and self-reliance in the defence

sector is being pursued under the 'Make in India' initiatives of Government. A number of measures have already been taken to harness the potential in the public and private sector to meet the defence requirement of the country, boost indigenous capabilities in the defence sector and facilitate progressive reduction in imports. These measures include according of priority and preference to procurement from Indian vendors and liberalization of the licensing regime.

2.17 In response to a query, the Ministry submitted details of Capital acquisition during the last two years of XIth plan and last three years of XIIth Plan broken up into acquisition from indigenous and imported sources:

Service	Year	Indigenous	Imported	Total
Army	2010-11	10859.08	865.80	11724.88
	2011-12	10359.86	506.07	10865.93
	2012-13	9,880.12	991.67	10,871.79
	2013-14	8,925.49	1,501.00	10,426.49
	2014-15	10,414.80	3,452.61	13,867.41
Navy	2010-11	6132.41	9975.60	16108.01
	2011-12	11367.03	6532.37	17899.40
	2012-13	10333.19	5968.80	16301.99
	2013-14	6587.64	12577.81	19165.45
	2014-15	14021.54	6884.00	20905.54
Joint Staff	2010-11	179.41	0.00	179.41
	2011-12	338.82	13.65	352.47
	2012-13	533.88	8.21	542.09
	2013-14	355.47	4.91	360.38
	2014-15	279.42	0.62	280.04
Air Force	2010-11	17811.23	4370.32	22181.55
	2011-12	11905.98	15258.11	27164.09
	2012-13	11,832.05	19,220.95	31,053.00
	2013-14	15,990.45	20,927.54	36,917.99
	2014-15	16,153.63	14,655.75	30,809.38

2.18 Responding to a query regarding heavy dependence of Air Force on foreign equipments during oral evidence, the Defence Secretary deposed as under:

'We do not have anything to say on that because that is the way the market is currently going on. It is because the sophisticated equipment that we require is available abroad. It is probably not available within the country. So, we are forced to import. In fact, I am not saying that this is the desirable state of affairs. Now, by introduction of the strategic partnership and other models, we are trying to have deep indigenisation of production.'

Import content of equipment produced, developed by DRDO, Ordnance Factories and DPSUs and Export

2.19 On the import content of equipment produced, developed by DRDO, Ordnance Factories and DPSUs, the Ministry supplied the following information:

- (1) **HAL:** The major products currently being manufactured at HAL are SU-30 MKI, Hawk, Light Combat Aircraft (LCA), Advanced Light Helicopter(ALH) and Dornier Do-228.

Platform	% Import by number	% Import by value
SU-30 MKI	25%	44%
Hawk	28%	58%
ALH	25%	50%
LCA	25%	40%
D0-228	27%	60%

- (2) **BEL:** BEL does not import fully finished Defence equipment. However, for the design, manufacture and supply of Defence products/services, the company resorts to import for some of the special Components/Raw materials, proprietary items etc., (input material) that are not being manufactured in the country. Percentage of Import content on input material during the last three years is given below:

Year	% Import Content input material
2013-14	36%
2014-15	36%
2015-16	44%

- (3) **BEML:** The details are given below:

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (End Dec.)
Import content (Rs in Crore)	587.63	728.17	553.66	412.56	618.96	328.52
Net VoP (Rs. in Crore)	3155.31	2878.83	2814.45	2599.93	2740.01	1515.15
Import contents % of Net VoP	18.62	25.29	19.67	15.87	22.59	21.68

(4) **BDL:** The details are given below:

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Sep (prov)	upto 2016
Import content as % of Value of Sales of BDL manufactured Products (ATGM, SAM& Under Water Weapons)	41.01	35.20	20.06	18.25	13.70	9.36	

(5) **GRSE:** The details regarding Import Content as % of VOP is as under:

Year	VOP (Rs. in crore)	Import Content	% of import
2012-13	1529	422.71	27.64
2013-14	1612	401.30	24.9
2014-15	1613	250.80	15.60
2015-16	1706.60	177.18	10.38
2016-17 (upto 31Dec'16)	701.18	48.89	6.97

(6) **GSL:** Data on Import content on Ships produced/delivered during last three years is as follows:

Type of Ship produced/delivered during last three years	Import content as percentage of Ship cost (%)
NOPVs (4 Ships)	14.51
CGOPV (2 Ship)	35.50

(7) **HSL:** Import content as a % of VoP of ships in HSL is 21% in the FY 2016-17 (till 3rdQtr) and 27% in the FY 2015-16.

(8) **MDL:** The import content in MDL constructed ships is given below:

Project	Import content
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P-15	58%
P-17	48%
P-15A	43%
P-15B	32%
P-17A	28%

(9) **MIDHANI:** Not applicable.

(10) **OFB:** OFB has not imported any fully formed defence products during past few years. OFB is importing only those items as a part of product support for which either the technology has not been transferred by the OEM or it has not been economically viable to enter into the transfer of technology agreements or sufficient capacity of indigenous production is not available. In some cases, the import of product support is resorted to meet the surge demand of user also. However, OFB's Import content during the last three years is as under:

Year	Value of supply	Value of Import	Import %
2013-14	11,123	1,685	15.15%
2014-15	11,364	1,017	8.9%
2015-16	13,081	1,656	12.66%

2.20 The value of export by DPSUs and Ordnance Factories (OFs) during the last three years including Civil Export is as under:-

(Rs. In Crore)

2013-14	2014-15	2015-16
867.35	1808.47	1282.94

Make-in-India policy and Self-reliance in Defence Production

2.21 The Committee desired to be apprised of the Action plan by the Government to make the country self-reliant in Defence production and progress made till date:

'Self-reliance is a major corner-stone on which the military capability of any nation rests. Accordingly, the Defence Production Policy promulgated by the Government, aims at achieving substantive self-reliance in the design, development and production of equipment, weapon systems, platforms required for defence in as early a time frame possible, creating conditions conducive for private industry to play an active role in this endeavour; enhancing potential of SMEs in indigenisation and broadening the defence R&D base of the country.

In view of the above and 'Make in India' initiative of the Government, several policy measures have been taken by the Government which are briefly described as below:-

- a. **Foreign Direct Investment (FDI):** Foreign Direct Investment (FDI) Policy under which Foreign Investment Cap is allowed through automatic route upto 49% and Government route beyond 49% wherever it is likely to result in access to modern technology or for other reasons to be recorded. The foreign investment in defence sector is further subject to Industrial license under the Industries (Development & Regulation) Act, 1951; and Manufacturing of small arms and ammunition under the Arms Act, 1959.
- b. **Industrial Licensing:** The Defence Products List for the purpose of issuing Industrial Licenses (ILs) under IDR Act has been revised and most of the components, parts, sub-systems, testing equipment and production equipment have been removed from the List, so as to reduce the entry barriers for the industry, particularly small & medium segment. The initial validity of the Industrial Licence granted under the IDR Act has been increased from 03 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis.
- c. **Defence Exports:** The list of military stores has been finalized and put in the public domain so as to make the process transparent and unambiguous. The process of receiving applications for NOC for export of military stores and for issuing NOC has been made online to reduce the delay and to remove human interface in the process. The Standard Operating Procedure (SOP) for the issue of No Objection Certificate (NOC) for export of military stores has been revised and put on the website. Under the revised SOP, the requirement of End User Certificate (EUC) to be countersigned / stamped by the Government authorities has been done away with for the export of parts, components, sub-systems etc. Recognizing the need for promotion of defence exports to make the Indian defence industry economically sustainable, Defence Exports Strategy outlining the various steps to be taken, has been formulated and put up in public domain.
- d. **Defence Offsets:** Offset implementation process has been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components, even in signed contracts. Foreign Original Equipment Manufacturers (OEMs) are now not required to indicate the details of IOPs and products at the time of signing of contracts. Services as an avenue of offset have been re-instated with certain conditionalities.
- e. **Level-Playing Field:** Issues related to level-playing field between Indian vs. foreign manufacturers and public sector vs. private sector has also been addressed. These include the following:-
 - i. Exchange Rate Variation protection has been made applicable for Indian private sector at par with Public Sector Undertakings for all categories of capital acquisitions.
 - ii. The preferential treatment given to Defence Public Sector Undertakings in excise duty / custom duty has been discontinued. As per the revised policy, all Indian industries (public and private) are subject to the same kind of excise and custom duty levies.

- f. **Removal of Tax Anomaly:** Basic Customs Duty of 5% to 10% has been levied on import of defence equipment by Government and the industry both, to discourage the imports and to encourage 'Make in India'. This Customs duty is not Cenvatable, therefore, manufacturer does not get input credit for this duty.
- g. **'Make' Procedure:** The Make Procedure has been revised to promote indigenous design, development and manufacture of defence equipment / platform required by the armed forces with a view to achieve self-reliance. The new procedure will give a tremendous boost to manufacturing of indigenously designed products through collaborative process with Indian industry. It also provides for enhanced government funding and preference to MSMEs for certain categories of projects. The main objective is to ensure that the Make procedure is unambiguous and transparent.
- h. **Buy (Indian-IDDM) in DPP-2016:** One of the notable features of DPP-2016 is the introduction of a new procurement category Buy (Indian-IDDM). This category refers to procurement from Indian vendors of products that are indigenously designed, developed and manufactured, and have at least 40% indigenous content. If the product is not designed and developed indigenously, it will have to have 60 percent indigenous content. The 'Buy (Indian)' category, in which the product is to be procured from Indian vendors, will now require to have an indigenous content of 40%, instead of the 30% present requirement.
- i. **Preference to Indigenous procurement:** In DPP-2016, preference has been provided to procurement under 'Buy (Indian-IDDM)', 'Buy (Indian)' and 'Buy and Make (Indian)' categories of capital acquisition over 'Buy & Make' or 'Buy (Global)' categories.
- j. **Outsourcing and Vendor Development Guidelines:** To promote the participation of private sector, Outsourcing and Vendor Development Guidelines for DPSUs and OFB have been formulated and circulated to them. The guidelines mandate each DPSU and OFB to have a short-term and long-term outsourcing and vendor development plan to gradually increase the outsourcing from private sector.'

2.22 When asked to provide information on whether 'Make-in-India' policy has any impact on the existing production policy of the Ministry of Defence, the Ministry of Defence replied as under:

'Defence Manufacturing' is one of the identified sectors under the 'Make in India' programme of the Government of India which aims to facilitate investment, foster innovation, protect intellectual property, and build best-in-class manufacturing infrastructure.

Defence Production Policy promulgated in 2011, aims at achieving substantive self-reliance in the design, development and production of equipment, weapon systems, platforms required for defence in as early a time frame possible; creating conditions conducive for the private industry to take an active role in this endeavour; enhancing potential of SMEs in indigenisation and broadening the defence R&D base of the country.

In pursuance of this policy, the new Defence Procurement Procedure (DPP) 2016 has been promulgated for capital procurements and has come into effect from 1st April 2016. DPP-2016 has a focus on achieving the "Make in India" vision by according priority to 'Buy Indian-IDDM (Indigenously Designed, Developed and Manufactured), 'Buy (Indian)' & 'Buy and Make (Indian)' categories. It also focuses on enhancement and rationalization of indigenous content. The 'Make'

Procedure has been simplified with provisions for funding of 90 % of development cost by the government to Indian industry and reserving projects not exceeding development cost of Rs.10 crore (government funded) and Rs.3 crore (industry funded) for MSMEs.

Apart from this, several policy changes have been made recently to ease the entry of private sector in defence manufacturing. These include liberalisation of FDI policy & Industrial Licensing policy, simplification of export procedures, streamlining of defence offset guidelines and creating level playing field for Indian private and public sector companies, to make the country self-reliant in defence production. These initiatives of the government will help encourage private sector participation in defence with special focus on MSMEs, thereby reducing dependence on imports.'

2.23 On the allocation of budget for 'Make in India' Project, the Ministry stated as under:

'The budget allocation is made for the total acquisition of defence equipment requirements of the Services. The proposals for capital acquisition in Defence Procurement Procedure (DPP) are categorised as 'Buy (Indian-IDDMM)', 'Buy (Indian)' & 'Buy and Make (Indian)', with preference over 'Buy (Global)' category, to make the country self-reliant in defence production after deliberations in various Committees such as SCAPCC/ SCAPCHC/ DPB/ DAC. There is no 'Make in India Project' category for procurement as per DPP, however, the objectives of 'Make in India' initiative of the government are pursued through procurements under 'Buy (Indian-IDDMM)', 'Buy (Indian)', 'Buy and Make (Indian)' and 'Make' categories of capital procurement.'

Private Sector Participation

2.24 When asked regarding the present Private Sector contribution in Defence Production and Research and Development and whether any grant was given to them by the Government, the Ministry responded as under:

'The Government has issued 342 Industrial Licenses (ILs) covering 205 companies for manufacture of a wide range of defence products, to Indian companies till June 2016; 52 licensee companies covering 83 licenses have so far reported commencement of production. Out of 342 ILs, 116 ILs have been issued since the launch of Make in India initiative.

DRDO has created infrastructure and a management structure to develop, manage and integrate high-cost and high-technology programmes and projects by pooling national resources and expertise available in academic institutions, R&D centres, public and private industries. It has a strong partnership with approximately 110 academic institutions, 20 national S&T agencies, 50 Public Sector Undertakings (PSUs), 39 Ordnance Factories (OFs) and more than 800 private sector industries. This has resulted in minimisation of effect of the Sanctions and technology denials, which were imposed by the technologically advanced countries from time to time.

Government of India has also set up the 'Technology Development Fund (TDF)' which aims at funding the development of defence and dual use technologies that are currently not available with the Indian defence industry, or has not been developed so far. The funding is to public and

private sector industry especially MSMEs that may work in collaboration with the academia or research institutions to carry out innovation, research and development. The scheme envisages creating an Eco-system for enhancing cutting edge technology capability for Defence application and to inculcate R&D culture in MSMEs.

In addition, under the 'Make' Category of Defence Procurement Procedure, there is a provision for collaboration between Government and private Indian Industry where 90% of cost of prototype development shall be borne by Government.'

2.25 Explaining the steps taken by the MoD to encourage the private sector, a representative of the MoD deposed as under:

'Sir, sixty to seventy per cent of the items have been de-licensed. All small parts, components and sub-systems have been de-licensed. The micro, small and medium enterprises in most of the cases they do not require licences at all. That is the big liberalization we have done so that these units can participate. We are encouraging our DPSUs and OFB, who produce almost 90 per cent of the total production in the domestic sector to outsource to SMEs. The MSME Ministry has come out with a circular saying that 20 per cent has to be purchased from small and micro enterprises. Today, out of our domestic procurement by OFB and DPSUs, we are purchasing about 28 per cent from small and micro enterprises. So, constantly we are reviewing it and similarly, we are ensuring that they outsource. Earlier the model was everything was to be produced in-house. Now we are encouraging them to be a system integrator.'

2.26 When asked to specify the manner in which Private Sector is helping Defence Public Sector Undertakings and Ordnance Factories in manufacturing of world class defence equipment, the Ministry of Defence submitted as under:

'The private sector is helping OFB and DPSUs by providing input material, components, assemblies/sub-assemblies for various weapons/defence equipment being produced in these units. Private labs and design houses collaborate with OFB/DPSUs in Research and Developments of technologies/new products.'

2.27 When enquired whether any state-of-the-art weapon or peripheral system has been made by private sector for the defence forces, the Ministry replied as under:

'Many state-of-the-art weapons have been made by private sector for defence forces. Some of the notable examples are as below:-

- a. PINAKA launcher system - by M/s TPCL and L&T.
- b. MAFI (Modernisation of Airfield Infrastructure) - by TATA Power SED
- c. Simulators of various types - by M/s ZEN Technology'

Strategic Partnership for various platforms from the Private Sector Industry

2.28 The Expert Committee under the Chairmanship of Shri Dhirendra Singh recommended a 'strategic partnership' model ("Strategic Partnership") for creating capacity in the private sector on a long-term

basis in six strategic segments such as aircraft/helicopters, warships/submarines, armoured vehicles, missiles, command control systems and critical materials. It recommended the constitution of a Task Force chaired by Dr. Aatre for laying down the criteria for selection of strategic partners (“Strategic Partners”) in the aforementioned six segments. Strategic Partnerships would not only be long term relationships between an Indian private sector entity and the MoD but would also be critical from the perspective of achieving self reliance in respect of national security and defence production apparatus of the country. The Task force submitted its Report in January 2016.

2.29 During oral evidence in connection with examination of Demands for Grants 2017-18, a representative of the Ministry submitted that the policy for ' Strategic Partnership' is under finalisation by MoD.

Offset Clause

2.30 Defence Procurement Procedure (DPP) stipulates provision for the offset clause in 'Buy (Global)' or 'Buy and Make' categories of Defence Acquisition where the indicative cost of acquisition is Rs. 2000 Crore or more on the date of AON. The provision of obligatory Offset discharge in defence acquisitions was included as part of DPP since 2005. Under this scheme a contractual responsibility is cast upon the foreign vendors in capital acquisition program to mandatorily fulfil offset obligations by opting any one or a combination of methods as given in Defence Offset Guidelines (clause 3.1) through their selected eligible Indian Offset Partners. Minimum 70% of the obligations are to be discharged through 3.1 (a), (b), (c) and (d). The required value of offset obligation is 30% of the estimate cost of acquisition in 'Buy (Global)' and 30% of the foreign exchange component in 'Buy and Make' categories of procurements. The obligations may be discharged with reference to eligible products and eligible services as listed out in DPP 2016. The offset condition is part of RFP and a separate offset contract is signed simultaneously with the main contract. The avenues for discharge of offset obligations which may be chosen by the vendors to discharge their offset obligation as stipulated at Para 3.1 of the Guidelines are summarized below-

- (a) Direct purchase of, or executing export orders for, eligible products manufactured by, or services provided by Indian enterprises.
- (b) Foreign Direct Investment in joint ventures with Indian enterprises (equity investment).
- (c) Investment in 'kind' in terms of transfer of technology (TOT) to Indian enterprises (civil

infrastructure and equipment excluded). TOT should be without licence fee and no restriction on domestic production, sale or export.

(d) Investment in 'kind' in Indian enterprises in terms of provision of equipment through the non-equity route (excluding TOT, civil infrastructure and second hand equipment).

(e) Provision of equipment and/or TOT to Government institutions and establishments. This includes augmenting capacity for Research, Design and Development, Training and Education but exclude civil infrastructure.

(f) Technology Acquisition by the Defence Research and Development Organization in areas of high technology.

Only contracts/activities between foreign vendor and their IOP for discharge of offset obligations signed/done after signing of the main procurement contract are reckoned for discharging offset obligations. For direct purchase of eligible products only value addition in India qualifies for discharge of obligations. The foreign vendors may consider creation of offset programs in anticipation of future obligations through offset banking provisions. The vendor of the equipment under the main procurement contract is responsible for fulfilment of offset obligations which has to be discharged within a time frame that can extend beyond the main procurement contract by a maximum of two years. The vendor, on its behalf, may allow its Tier I sub vendors under the main procurement contract to discharge offset obligations to the extent of its work share by value.

The basic objective of Defence Offsets is to leverage capital acquisitions to develop Indian defence industry by:-

- (i) Fostering development of internationally competitive enterprises.
- (ii) Augmenting capacity for Research, Design and Development related to defence products and services and
- (iii) Encouraging development of synergistic sector like civil aerospace and internal security.

2.31 On gains of the offset provisions and changes made by the new Defence Procurement Procedure (DPP) in the existing provisions, the Ministry submitted as under:

'As on 31st December 2016, 35 offset contracts (22-IAF, 10-IN and 3-IA) have been signed. The total offset obligations is US\$ 10.4 billion approx (contracts with different denominations converted to USD) to be discharged over a period extending upto 2024. The contracted obligations to be discharged as per schedule till December 2016 amounts to US\$ 2.7 billion approx. against which the vendors have reported discharge claims worth US\$ 2.01 billion approx.

These offset contracts are under different stages of implementations by the foreign OEMs. Once executed, it is estimated that the respective contract shall cause, on account of offset provisions, generation of substantial business to Indian industries thus strengthening the defence industrial base. It shall also enable the Indian domestic industry to be a vital part of the supply chain of the major global defence industries by becoming key players in the highly competitive and cost conscious international defence market in their respective areas of expertise.

Further, through the banking provisions, the OEMs are likely to invest more in Indian Industries even in absence of any acquisition contract which is expected to spur growth in defence and synergistic sectors.

The offsets by their inherent nature have long gestation period the effect of which shall be visible in near future and the expected gains shall be discerned in coming years when the contracts are gradually executed.

Few of the notable changes in the existing offset provisions in new DPP:-

- The offset are applicable to capital acquisition categorised as 'Buy Global' and 'Buy and Make'
- The threshold for offsets applicability has been enhanced to Rs. 2000 Cr from Rs. 300 Cr.
- The vendor has an option of providing (Indian Offset Partner) IOP wise work share, specific products and supporting documents for IOP credentials either at TOEC or one year prior to discharge or at the time of seeking credits.
- Any vendor failing to implement the offset obligations will be liable for action under Para 93 of Chapter II of DPP.'

2.32 When asked about the number of cases where offsets as promised could not materialized and action taken by the Ministry in this regard, the Ministry submitted as under:

'Offset contracts have long term gestation period. These are at various stages of implementation. Vendors report the offset discharge undertaken through quarterly/six monthly reports which is monitored. The offset guidelines provide for imposition of penalty in case of shortfalls in annual offset discharge by the vendor. In eleven offset contracts, penalty/interim penalties have been imposed on shortfalls in offset discharge by the vendors.'

Defence Offsets Management Wing (DOMW)

2.33 The “Defence Offsets Management Wing” (DOMW) set up under the Department of Defence Production in August 2012 has been entrusted with the following responsibilities: -

- a Formulation of Defence Offset Guidelines;
- b Monitoring the discharge of offset obligations, including audit and review of progress reports received from vendor;
- c Participation in Technical and Commercial evaluation of offset proposals as members of TOEC and CNC;
- d Implementation of Offset banking guidelines;
- e Administration of penalties under offset contracts in consultation with Acquisition Wing;
- f Assisting vendors in interacting with Indian Industry; and
- g Other responsibilities assigned under offset guidelines or entrusted by the Government.

2.34 When asked to give details of achievements of DOMW since its inception, the Ministry submitted as under:

'Post formation, DOMW has been engaged in streamlining and strengthening the process of monitoring the discharge of obligations and has taken significant measures to achieve the same. The institutional framework put in place to address issues relating to defence offsets is illustrated below:

- (a) A collegiate mechanism has been evolved comprising of senior officers from three services, finance and legal department headed by JS/DOMW to oversee all matters pertaining to effective and efficient implementation of the offset policy.
- (b) The office of CGDA has been engaged as the nominated audit agency to audit the offset discharge claims.
- (c) A committee under the chairmanship of Additional Secretary/DP for examination of offset banking proposals has been constituted with the approval of Hon'ble Raksha Mantri. The committee has formulated SOPs and checklists for the examination of the proposals received from the vendors.
- (d) DOMW has also been constantly engaging with the vendors and other stake holders and responding to their queries in a regular manner through meetings and interactions. A facilitation mechanism has been evolved in the SCOPE complex to assist the vendors on various issues under the offset policy.
- (e) Standard Operating Procedure (SOP) has been evolved to address various issues being encountered in smooth implementation of offset contract to achieve the desired standard and to meet the emerging requirements arising due to dynamics of the ever changing defence industrial scenario.

DOMW has been monitoring the offset discharge claims received from the vendors during the implementation. As on 31st December 2016, 35 offset contracts (22-IAF, 10-IN and 3-IA) have

been signed. The total offset obligations work out to US\$ 10.4 billion approx (contracts with different denominations converted to USD). The contracted obligations to be discharged as per schedule till December 2016 amounts to US\$ 2.7 billion approx. against which the vendors have reported discharge claims worth US\$ 2.01 billion approx. DOMW has been regularly participating in the different TOECs and the CNCs of on-going cases, resulting in the conclusion of 16 offset contracts.

The OEMs who participate in offset contracts in general are large international Defence manufacturers/ conglomerates/ part of big consortia. These international enterprises are expected to have mature mechanisms to remain internationally competitive and to maintaining global quality standards. While entering into an offset contract, the OEMs are granted full liberty in selecting their Indian Offset Partners. The IOPs are chosen as per their core competencies, quality standards and cost effectiveness. The selected IOPs by virtue of being integrated in the global supply chain of these large Defence manufacturers have to necessarily become and remain internationally competitive. Thus, the offset policy in general, aims to encourage the Indian enterprises, both public and private, to become a key player in the highly competitive and cost conscious international defence market in their respective areas of expertise. Through this avenue, the long term benefits to the Indian Defence industry would be substantial.'

2.35 On the salient features of the new Offset Policy to encourage development of Indian Private and Public Defence Sector, the Ministry submitted the following information:

'The new draft offset guidelines envisage targeted offsets, wherein, the desired outcome will be stated upfront in the RFP and the vendors have full flexibility on process to realise the outcome. Targeted offsets shall include Transfer of Technology, development of ecosystem in defence manufacturing and creation of infrastructure for skill creation and development.

The OEMs, according to the existing offset guidelines, choose Indian Partners from amongst the private and public enterprises in defence as per their core competencies, quality standards and cost effectiveness. The OEMs in general are large international Defence manufacturers/ conglomerates/ part of big consortiums having their respective global supply chains, wherein the selected IOPs get integrated and through such exposures are expected to scale up their operations in order to become and remain internationally competitive. The offset guidelines thus in general, aims to encourage the Indian enterprises, both public and private, to become a key player in the highly competitive, quality and cost conscious, international defence market in their respective areas of expertise.'

2.36 The Ministry further submitted the following information on the increase of the indigenous content in defence products through new Offset Policy:

'The new draft offset policy envisages development of an ecosystem for facilitating manufacture of critical components and spare parts to be mandatorily sourced for the acquisition platform. This, apart from enhancing the indigenous content in the platform, would also enable indigenously sourced life cycle support and maintenance of the equipment. The proviso of min 30 per cent indigenisation in the acquisition platform is anticipated to further encourage indigenisation efforts being undertaken in the private and public industrial domain, which is estimated to yield desired

results in near future.'

Foreign Direct Investment (FDI)

2.37 The Ministry, in regard with current FDI limit, submitted following information:

'The Government, recently vide Press Note No. 5 (2016 series) dated 24.06.2016 inter-alia reviewed the FDI Policy in Defence sector. Foreign Investment up to 49% is allowed through automatic route and above 49% under Government route wherever it is likely to result in access to modern technology or for other reasons to be recorded. Foreign Investment in Defence sector is subject to the grant of Industrial License under the Industries (Development and Regulation) Act 1951, by Licensing Committee, an inter-ministerial body, which among other aspects, also takes into account security clearance by Ministry of Home Affairs (MHA) and views of Ministry of Defence (MoD).'

2.38 When asked about the impact if, FDI limit is increased to 100%, on production of defence equipment as well as on R&D, the Ministry replies as under:

'The amendments made in the policy could be the most trusted route to technology transfer which will not only help in increasing the defence production base but also provide the much needed impetus to self-reliance and indigenization in defence sector.

Even under the present dispensation, the FDI can be upto 100%. The details of FDI/JV proposals approved so far in Defence sector are as under:

- a. So far, 36 FDI Proposals/JVs have been approved in the defence sector.
- b. Out of 36 FDI Approvals, 32 proposals have been approved to the Indian Private Companies. Out of 32 proposals, 04 are having FDI to the proportion of 49 % and the remaining 28 are having less than 49 %.
- c. There is 1 approval of FDI by HAL with Russia with 50:50 equity for co-development and co-production of Multirole Transport Aircraft of 15-20 ton category.
- d. The other 3 approvals are less than 26% FDI by HAL (02) and BEL (01).
- e. FDI amounting to Rs 25.48 Crore (US \$ 5.12 million) has been received in defence Sector from April 2000 to Sept 2016.'

CHAPTER III

DEFENCE PLANNING

Five Year Defence Plans

3.1 The Defence Five Year Plans are formulated to chalk out the necessary steps to maintain and augment defence capabilities in line with the RM's Operational Directives, the Long Term Perspective Planning and the current threat perception. These plans help to estimate the outlay required to achieve the planned objective.

3.2 On the achievements of 10th and 11th Plan, the Ministry has stated:

'Expenditure incurred during the 10th and 11th Plan periods, as against initial projections is as follows:

(Rs. in Crores)

PLAN	Projections	Expenditure
10 th Plan (2002-07)	4,18,101.00	3,57,627.17
11 th Plan (2007-12)	6,48,750.16	6,72,714.63

3.3 When asked regarding the period of 10th, 11th and 12th, following information was supplied by the Ministry:

Xth Plan	2002-07
XIth Plan	2007-12
XIIth Plan	2012-17

However, these Plans did not receive government approval. Nevertheless, activities included in the Plans proceeded during the Plan period within the available budget allocations. Projections in respect of annual budgets were made in line with Five Year Plans and available allocations prioritized accordingly.'

3.4 The year-wise expenditure for the first 4 years and revised estimates for the fifth year pertaining to the current Five Year Plan period is as under:

<u>Year</u>	<u>Revenue</u>	<u>Capital</u>	<u>Total</u>
2012-13	1,11,276.66	70,499.12	1,81,775.78
2013-14	1,24,374.30	79,125.05	2,03,499.35
2014-15	1,36,807.20	81,886.98	2,18,694.18
2015-16	1,45,936.45	79,958.31	2,25,894.85
2016-17 (RE)	1,49,051.34	71,700.00	2,20,751.34

3.5 Explaining the reason for non-implementation of 10th, 11th and 12th Plan and probable losses as an outcome of the same, the Ministry submitted as under:

'As already mentioned, plan activities proceeded within the available annual budget allocations. As such, planned projects were implemented to the extent possible with the available allocations. Thus, the Plans served as a guide for formulating annual budgetary projections even though formal approval for the Plans could not be obtained.'

3.6 On being enquired about the corrective measures taken by the Ministry so that the 13th Defence Five Year Plan (2017-2022-guidelines issued on 30.11.2015) does not face the same fate of previous plans, the Ministry submitted as under:

' While formulating guidelines for the 13th Defence Plan it was decided that the Plan may not be sent to Ministry of Finance for information only and not for its approval. The Ministry of Finance will be kept in loop about the requirements of the Defence Forces in the coming years.

Non-approval of Defence Plan does not act as a hindrance in implementation of Defence projects. Activities planned are likely to proceed according to available annual budget allocations. As such, planned projects were implemented to the extent possible with the available allocations. Thus, the Plans served as a guide for formulating annual budgetary projections even though formal approval for the Plans could not be obtained.'

3.7 The Committee desired to know that with the doing away of Five Year Plans and demarcation of Plan / Non-Plan expenditure, how the Ministry would propose to carry out resource estimation / implement schemes and programmes. The Ministry responded as under:

'Discontinuation of Five year Plans and Plan/Non-Plan Expenditure has no impact on resource estimation/implementation of projects. Five year Defence Plans are still being prepared in which future requirements of the Services are projected. Activities planned are likely to proceed according to available annual budget allocations. As such, planned projects were implemented to the extent possible with the available allocations. Thus, the Plans served as a guide for formulating annual budgetary projections even though formal approval for the Plans could not be obtained.'

Long Term Integrated Perspective Plan (LTIPP)

3.8 When asked to elaborate on LTIPPs, their achievements, the procurement of weapon system ammunition etc. as per the plan and steps taken till date so that acquisition can take place as per the plan, the Ministry submitted the following information:

'The Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027 is in vogue and has been approved by the Defence Acquisition Council. Proposals for acquisition of capital Assets flow out from the defence procurement planning process which covers the 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP).

The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year roll on plan for capital acquisition and consists of the schemes from the approved five year SCAP. Thus, the long term plan (LTIPP) gets finally translated to short term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in SHQ and MoD. Amendments are made to the DPP, as and when required, to streamline the acquisition process. DPP-2016 focused on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to 'Make in India' initiative of the Government of India, by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems.

The budget and expenditure on capital acquisition of defence equipment during the 11th Plan and 12th plan is given below :

11th Plan

(Rs. in crore)

Year	BE	RE	Actuals
2007-08	34410.70	30546.61	30336.70
2008-09	40051.17	32907.18	32335.30
2009-10	43700.60	38379.37	41918.88
2010-11	47305.69	47848.76	50186.07
2011-12	56510.49	53292.30	56281.88

12th Plan

(Rs. in Crore)

Year	BE	RE	Actuals
2012-13	66032.24	57395.46	58768.86
2013-14	73444.59	66406.41	66850.30
2014-15	75148.03	66151.73	65582.06
2015-16	77406.69	65400.00	61761.80
2016-17	78731.32*	-	53583.04* (upto Dec, 2016)

*Including joint staff

Advance planning for the Forces

3.9 The Ministry was asked to give details of the requirements of the Services and whether the Ministry has made any planning about requirement of weapons system, Aircraft, Aircraft carriers, critical ammunition for the future, say 20 years. The Ministry submitted following information in this regard:

'The long term capital acquisition requirements of services are reflected in the Long Term Integrated Perspective Plan (LTIPP), which is for 15 years. The present LTIPP covers the period 2012-27. Deriving from the LTIPP, a five year Services Capital Acquisition Plan (SCAP) is prepared, which is further translated into a two year Roll-on plan known as the Annual Acquisition Plan (AAP). Cases included in the AAP are progressed as per Defence Procurement Procedure (DPP) till finalisation by signing of contracts/placement of indent.'

3.10 The details of contracts signed in respect of three Services during last three financial years are as follows:

Year	2013-14		2014-15		2015-16	
	No. of Contract	Value(Rs. in Crore)	No. of Contract	Value (Rs. in Crore)	No. of Contract	Value(Rs. in Crore)
Army	23	14834.32	21	10109.86	22	8481.04
Navy	10	1243.57	19	51311.22	26	5770.17
Air Force	9	7849.32	7	3438.44	13	33626.08
Total	42	23927.21	47	64859.52	61	47877.29

The contracts have been signed for Capital procurement of defence equipment including Ships, Missiles, Rockets, Simulators, Tanks, Guns, Aircrafts, Helicopters and Radars.'

Chapter IV

Married Accommodation Project

Directorate General of Married Accommodation Project (DG MAP) was raised by Government of India under the aegis of Engineer in Chief to construct married accommodation for the three services, with the aim of eradicating the deficiency of married accommodation for service personnel. The MAP was setup to fulfill the promise made to the Armed Forces by the Govt of India. The Total deficiency of two lac dwelling units have been slated for construction in four phases as per details given below:-

SERVICES	PHASE-I	PHASE-II	PHASE-III & IV	TOTAL
Army	47,383	58,931	69,777	1,76,091
Navy	2,687	3,994	--	6,681
Air Force	7,805	7,067	1,237	16,109
Total	57,875	69,992	71,014	1,98,881

With the approval of the Cabinet on Security (CCS) three Committees, i.e. Apex Steering Committee (ASC), Vice Chief Committee (VCC) and Command Committee (CC) have been set up with enhanced financial powers for speedy decision making.

Projections and allocations made to MAP

4.2 During presentation before the Committee, MAP supplied the following figures on the allocation of budget:

(Rs. In crore)

Year	Service	Expenditure		
		Projected	Allocated	
2015-16	Army	1500	2374.19	2,365.79
	Navy	190	190	190.49
	Air Force	250	180	180.33
2016-17	Army	1780	1780	1338.90
	Navy	120	120	84.23
	Air Force	215	180	165.11
2017-18	Army	1100		
	Navy	100		
	Air Force	150		

4.3 On the issue of amendment in MAP Works Procedure (sanctioned in 2003 and amended in 2009),

DG MAP apprised the Committee as under:

'MAP Works Procedure's amendments have been forwarded to MoD. They are in the process of being amended and I am sure that it will come through very soon.'

4.4 During the presentation before the Committee, following information was furnished regarding progress of MAP:

PHASE	STATIONS	DUs	OVERALL PROG	OVERALL PROG OF SANCTIONED PROJECTS
I	86	57,875	100%	89 %
II	157	69,904	80%	
III	158	71,102	GOVT SANCTION TO COMMENCE AWAITED	
TOTAL		1,98,881		

4.5 On the progress of work by MAP, the Defence Secretary deposed as under:

' Sir, let me make it clear that as far as MAP is concerned, there are two phases under execution. The second phase is currently going on. Before the third phase is launched, we got the first phase and second phase evaluated. There was a committee headed by Adm. Murugesan which had gone into the implementation of MAP. They have submitted the report. We have already examined the report and submitted it for final decision.

Now, based on the recommendations of the report, entire programme will have to be redesigned as to how it will be done during the third phase so that the quality of construction and other aspects of execution of the project are revamped. Once that is there, if there is any need for any procedure to be changed, we will definitely address that.'

4.6 As regards the status of Phase III of MAP, he further apprised the Committee as under:

'Immediately after the evaluation work is over, it will be taken up. The evaluation work has already been done and decisions and policy changes, which are required based on the evaluation report, are under progress now. That will not take time because we have processed it very fast.'

4.7 On the aspect of financial constraint with regard to phase III of MAP, the Defence Secretary submitted as under:

'Sir, there is no constraint of funds. In light of execution of the first two phases, we wanted to give a new direction to the project. So, Phase III will be given top priority and it will be executed.'

4.8 Candidly expressing before the Committee dissatisfaction on Phase II of MAP, the Defence Secretary submitted as under:

'Sir, let me also make it clear that the evaluation was also required for one reason that the progress of phase II was not satisfactory. Now, if the progress of phase II is not satisfactory, going to the Cabinet for phase III would have been difficult. Now, in the last two years, it has been pushed and progress has gathered momentum. I am sure, by the end of this year, substantial progress would have been achieved. In the meanwhile, we will not wait for that. Now that it has picked up momentum, phase III will be processed.'

4.9 As regards the authorization of Married Accommodation and satisfaction level of the Officers and Other Ranks, DG MAP submitted that 35 per cent of the jawans are authorized for married accommodation. So far, about 95,000 houses have been constructed under MAP. He also submitted before the Committee that after the completion of MAP Phase II, the percentage of satisfaction for the Army will touch 68 per cent, for the Navy about 96 per cent and for the Air Force 82 per cent.

4.10 DG MAP explained to the Committee the new technology being used in construction of dwelling units as under:

'Sir, the shear wall and pre-cast technology are much faster. From the earthquake resistance point of view, they are much better. From the ratio of the built up area to carpet area, they are much superior because the wall thicknesses are much less. It is cost effective; less labour intensive; the pollution control is much better as on the site there is much less pollution... it is 100 per cent Make-in India.'

4.11 When asked whether with the use of new technology the cost of construction will come down, DG MAP apprised the Committee as under:

' It depends on the volume. If there are about 3,000 dwelling units to be constructed, it will be about 10 per cent cheaper than the conventional frame structure. As on today, the rate would be Rs. 1,500-1,600 per square feet depending on the location. '

PART - II

OBSERVATIONS/RECOMMENDATIONS

Allocations under Capital Budget Head

1. The Committee note that an amount of Rs. 86,488.01 crore has been allocated to the Ministry of Defence for Capital Outlay on Defence Services in Budget Estimates (BE) 2017-18. The allocation at BE for 2016-17 was Rs. 78,586.68 crore, which was later reduced to Rs. 71,700.00 crore at Revised Estimates (RE) stage. The difference between BE 2017-18 and BE 2016-17 is Rs. 7,901.33 crore. An amount of Rs. 69,473.41 crore has been allocated specifically for Capital (Acquisition) in 2017-18, which is a decrease of Rs. 425.10 crore from Rs. 69,898.51 crore of BE 2016-17. However, for Capital Head (other than Acquisition) which includes expenditure on Land and Works of the three Services, Married Accommodation Projects, Defence Research and Development Organisation (DRDO), Directorate General of Ordnance Factories (DGOF) and other Defence Departments, an amount of Rs. 17,014.60 crore has been allocated in BE 2017-18. This head has witnessed an increase of Rs. 8,326.43 crore from the amount allocated in BE 2016-17. The Committee are surprised to note this huge mismatch between the amounts allocated for Capital (Acquisition) and Capital (other than Acquisition) in BE 2017-18 and would like the Ministry to explain the rationale behind this.

2. The trend of Capital Account Budgeting for the three Services is evident from the following figures:

Year	Service	BE				(Rs. in Crore) RE Expenditure	
		Projected	Allocated	Projected	Allocated	Projected	Allocated
2010-11	Army	21,633.04	17,250.84	19,177.55	15,641.16	15,856.08	
	Navy	15,221.78	12,137.85	17,890.87	15,323.77	17,140.18	
	Air Force	31,667.56	25,251.72	25,271.72	24,266.79	23,625.42	

2011-	Army	25,611.68	19,210.69	20,641.69	16,005.69	14,947.82
12	Navy	26,882.60	14,657.83	21,482.18	17,459.08	19,211.52
	Air Force	36,186.10	30,282.03	30,282.03	27,734.78	28,841.18
2012-	Army	28,234.60	19,237.80	18,971.09	15,749.30	14,760.69
13	Navy	28,643.19	24,766.42	25,002.85	18,266.42	17,759.88
	Air Force	36,950.52	30,514.45	36,999.62	30,517.95	32,980.11
2013-	Army	25,528.08	17,883.83	19,271.59	14,967.25	14,433.29
14	Navy	33,775.53	24,149.03	27,290.06	20,418.98	20,358.85
	Air Force	64,607.84	39,208.84	65,825.22	37,750.44	38,614.93
2014-	Army	41,936.15	26,533.60	23,832.67	21,933.54	18,586.73
15	Navy	28,253.21	23,832.67	22,903.31	18,507.07	22,269.66
	Air Force	62,408.33	33,710.68	38,948.19	33,710.68	32,796.42
2015-	Army	31,938.67	27,342.42	27,845.33	24,230.47	20,703.70
16	Navy	26,268.13	25,003.24	25,152.20	19,740.06	19,874.69
	Air Force	46,191.96	33,686.75	35,780.78	30,442.15	31,198.32
2016-	Army#	37,960.18	26,943.08	34,706.12	24,026.86	17,205.64*
17	Navy	30,223.31	22,000.09	22,530.04	19,596.28	12,613.87
	Air Force	41,266.41	29,795.42	36,512.95	28,239.86	23,770.25

(Rs. in Crore)

* Expenditure upto end of December 2016

(# Includes allotment to NCC, DGQA, Military Farms, Rashtriya Rifles and ECHS which were shifted to modified Grant No. 20-MoD(Miscellaneous) in FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with the exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years).

- The above table depicts the budgetary provision for Capital acquisition for the three Forces from 2010-11 onwards. The Committee observe that the budgetary allocations for Capital acquisition has declined for the three Services not only at the RE stage of 2015-16 in comparison to BE 2015-16 but also for the RE during the year 2016-17 in comparison to BE 2016-17.
- Similarly, against a projection of Rs. 1,46,155.54 Crore for Capital Budget in 2017-18, Rs. 86,528.65 have been allocated for BE 2017-18 for various Services (Army, Navy, Joint staff, Air Force, DGO, R&D and DGQA, National Cadet Corps, Military Farms, Rashtriya Rifles and Ex-Servicemen Contributory Health Scheme). For 2017-18, the Army projected an amount of Rs. 42,485.93 crore for Capital Budget but only Rs. 25,246.35 crore has been allocated, which is in

line with the trend being witnessed over the years. The same is the case with the Navy and Air Force which projected a requirement of Rs. 27,546.49 crore and Rs. 62,048.85 crore but have been allocated Rs. 18,603.71 crore and Rs. 33,570.17 crore, respectively.

5. The Committee are highly disappointed to note the persistent trend of decreased allocation of funds compared to the projected amount meant for Capital Expenditure for the Services. This decline in the allocation for Capital acquisition will definitely affect several procurement proposals and contracts relating *inter alia* to Land, Aircraft & Aeroengines, Heavy and Medium Vehicles, Other Equipments, Military Farms, Procurement of Rolling Stock, Ex-Servicemen Contributory Health Scheme, Rashtriya Rifles, National Cadet Corps, Construction Works, National Defence Academy, Married Accommodation Project, North Eastern Projects and Special Projects, etc. which are to be finalised in 2017-18. The budgetary cut at BE 2017-18 against the projection indicate that all the pending procurement projects would not go through unless the Government increases the allocations at the Revised Estimate stage. Therefore, the Committee fervently urge the Ministry to ensure that the allocations to the Services, under the Capital Head, match their demands and the allocation be suitably enhanced at the Revised estimate stage so as to enable our Services to meet the requirements of highest level of operational readiness.

Ratio of Capital and Revenue Outlay

6. The Committee observe that from 2012-13 onwards, the 'Capital' component of the budgetary allocation has decreased in comparison to 'Revenue' component of the Budget. The overall 'Revenue' to 'Capital Ratio' of the budgetary allocation stands at 61:39, 61:39, 63:37, 65:35 and 68:32 for 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 (RE), respectively. The Committee understand that the Revenue component of the Budget caters to salary, other obligatory expenses, requirement of stores (including Ordnance), transportation (of personnel and stores),

revenue works and maintenance, etc. and the Capital component provides allocation for Land & Construction Works of the three Services, Capital Expenditure of various Defence Departments and for Capital Acquisitions of the Services, etc. Both components are equally important aspects of the Budget, however, the Committee are deeply anguished to note that with each year, the ratio of Revenue to Capital outlay is skewed as the Budget for Capital acquisitions for the Services is declining in comparison to revenue allocations thereby adversely affecting the modernisation process of our Forces. Therefore, the Committee recommend that the Ministry of Defence should look into this aspect and overhaul their planning and budgeting mechanism to ensure a prudent and equitable distribution of funds to 'Revenue' and 'Capital' Heads.

Underspending

7. The Committee, while examining the Demands for Grants, have observed that the Capital expenditure has never remained under control and the allocated funds under Capital Head are never fully utilized. During the year 2011-12, at RE stage, Army was allocated Rs. 16,005.69 crore but was able to utilise only Rs. 14,947.82 crore. During the year 2012-13, at RE stage, Army was allocated Rs. 15,749.30 crore, but again it was able to utilise only Rs. 14,760.69 crore. In the same year, Navy was allocated Rs. 23,867.62 crore at BE stage but it could spend only Rs. 16,835.64 crore. During the year 2013-14, the Army was allocated Rs. 14,967.25 crore at RE stage, but it was able to spend only Rs. 14,433.29 crore. Similar was the case with Navy, which was not able to spend in full the allocation made at RE stage. Again, in the year 2014-15, Army was allocated Rs. 21,933.54 crore at RE stage but spent only Rs. 18,586.73 crore and Air Force was able to spend only Rs. 32,796.42 crore against the allocation of Rs. 33,710.68 crore at RE stage. During the year 2015-16, Army was allocated Rs. 24,230.47 crore at RE stage but was able to spend only Rs. 20,703.70 crore.

8. In BE 2016-17, under Capital Head, Army was allocated Rs. 26,935.81 crore at BE stage and Rs. 24,017.86 crore at RE stage but was able to spend only Rs. 17,198.92 crore upto December, 2016. The allocation for Capital Acquisition for Navy which was Rs. 21,041.22 crore during BE 2016-17 was reduced to Rs. 18,742.17 crore at RE stage, but expenditure upto December, 2016 was Rs. 12,167.23 crore. The allocation for Capital Acquisition for Air Force which was Rs. 29,795.42 crore during BE 2016-17 was reduced to Rs. 28,239.86 crore at RE stage, but expenditure upto December, 2016 was Rs. 23,770.25 crore.
9. On being asked to provide reasons for reduction in budget allocation for Revised Estimates 2016-17, the Ministry of Defence submitted that during budget discussion with Ministry of Finance (MoF), the slow pace of expenditure was cited by Ministry of Finance as the reason for reducing allocations/ not granting additional allocations. The Committee are highly disappointed to note the persistent trend of underutilization of funds meant for capital expenditure for the Services even though the amount allocated under this head is always less than the projected one. The underutilization of funds highlights the loopholes in the planning and budgetary exercise undertaken by the Ministry of Defence and consistent failure to utilize the allocated funds has also contributed to reduction in Ministry's budget allocations by the Ministry of Finance. The Committee, therefore, recommend that it is high time the Ministry rectified the deficiencies / anomalies in their budgetary planning and expenditure and took foolproof measures to ensure maximum utilisation of the funds.

Capital Acquisitions - Creation of 'Roll on' and 'Non Lapsable Fund

10. The Committee have, in their reports presented earlier, emphasised on the allocations being of 'Roll on' and 'Non-Lapsable' in nature. However, The Ministry of Defence in the information furnished to the Committee on the subject matter in the past had, in general, not favoured the proposal for constituting a Non-lapsable Defence Capital Fund Account , ostensibly on the plea

that there had been no occasion in the last five years where any substantial amounts were available as surplus for rolling over. The intention of the Committee in recommending Non-Lapsable funds for Defence modernization is primarily for ensuring that the money allocated for a particular item is spent on the specified item only, not necessarily in the same Financial year.

11. The Committee are glad to note that the Ministry of Defence has now reviewed its stated position and has admitted that the utility of creation of a non-lapsable, roll over fund for Capital cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects. A proposal for obtaining 'in-principle' approval of Ministry of Finance on creation of Non-lapsable Capital Fund Account has been sent on 9.2.2017 by the Ministry of Defence after obtaining approval of Hon'ble Raksha Mantri and response from the Ministry of Finance is awaited.

12. The Committee are disappointed to note that the Ministry of Finance is still not in favour of creating 'Non-lapsable Defence Capital Fund Account'. As per the Ministry of Finance, it may not be advantageous in creating a reserve/corpus fund in the Public Account and the requirement of Ministry of Defence for meeting its Capital Modernisation and acquisitions can be addressed through normal budgetary mechanism. The Committee would like to draw attention of the Ministry of Finance to the fact that since last few years, the allocations for the Ministry of Defence under the 'Capital' head are always lesser than its projection not only at BE stage but also at RE stage. To illustrate, against a projection of Rs. 1,46,155.54 crore for Capital Budget in 2017-18, only Rs. 86,528.65 crore have been allocated for BE 2017-18 for various Services (Army, Navy, Joint staff, Air Force, DGOF, R&D and DGQA, National Cadet Corps, Military Farms, Rashtriya Rifles and Ex-Servicemen Contributory Health Scheme). Therefore, the Committee do not agree with the contention of the MoF that the desired objectives of Ministry of Defence towards meeting its contractual liabilities, acquisitions and defence modernisation can be achieved through

normal budgetary mechanism. The Ministry of Finance should also keep in mind that defence procurement and acquisition is a complicated process involving long gestation periods and funds allocated for capital acquisition in a particular financial year are not necessarily consumed in that year and ultimately have to be surrendered by the Ministry of Defence. The Committee, in this regard, would like the Ministry of Finance to look at the matter afresh and work out the modalities for creation of 'Non-lapsable Defence Capital Fund Account' in consultation with the Ministry of Defence keeping in mind that our Forces' plans for capacity enhancement and heightened operational preparedness would be negatively affected due to reduced allocation of funds in the Capital head and this would ultimately be detrimental to our National Security.

13. The Committee find it pertinent to mention in this context that in the Union Budget 1998-99, the Non-lapsable Central Pool of Resources for the North Eastern region was constituted with approval of Parliament. The broad objective of the Non-lapsable Central Pool of Resources scheme was to ensure speedy development of infrastructure in the North Eastern region by increasing the flow of budgetary financing for new infrastructure projects/schemes in the Region.

14. For identification of projects under Non-Lapsable Central Pool of Resources, States are asked to submit, before the beginning of the financial year, a prioritized list of projects with a short write up on each project. The Committee to administer the Non-Lapsable Central Pool of Resources is headed by Secretary, Ministry of Development of North Eastern Region and has representation from Ministries of Finance and Home Affairs. The priority accorded by the state to the projects in the 'priority list' is only a suggestive and the Committee to administer the Non-Lapsable Central Pool of Resources scrutinizes the projects in the lists in order to identify and finally retain the suitable projects for detailed examination. In examining the priority, the Committee is, inter-alia, guided by considerations such as priority to projects of economic infrastructure, drinking water supply and other health and sanitation projects, the overall utilisation and absorption of funds by a particular state in the past years, past performance of a State in implementing projects in the

particular sectors etc. After approval of the Committee, funds are sanctioned and released by the Ministry of Development of North Eastern Region on submission of an implementation schedule. Subsequent releases are made only after receipt of Utilisation Certificate of earlier releases.

15. The Committee desire that the Ministry of Defence, taking an inspiration from the Non-lapsable Central Pool of Resources for the North Eastern region, should devise streamlined institutional arrangements to administer the 'Non-Lapsable' and 'Roll on' Capital Budget.

Committed Liabilities and New Schemes

16. Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in previous years. Under the Defence Services Estimates, Committed Liabilities constitute a significant element in respect of the Capital acquisition segment, since one project may span several financial years. As such, it is important to track the element of Committed Liabilities which hold first charge on the budget allocation. Inadequate allocation for Committed Liabilities could lead to default on contractual obligations.

17. During the year 2015-16, BE allocations for committed liabilities and new schemes were Rs. 15,740.75 crore and Rs 1,541.06 crore, respectively, in case of Army. These figures were reduced to Rs. 9,875.21 crore and Rs. 3,160.07 crore, respectively, in RE 2015-16. The actual expenditure for committed liabilities and new schemes was Rs. 8,705.82 crore and Rs. 1,438.14 crore, respectively. For the Navy, these allocations were Rs. 22,248.12 crore and Rs. 1,112.78 crore for BE 2015-16 and Rs. 17,200 crore and Rs. 1,193.38 crore for RE 2015-16, respectively. The actual expenditure for committed liabilities and new schemes was Rs. 17,788.39 crore and Rs. 591.34 crore, respectively. Air Force was given Rs. 28,246.53 crore for Committed Liabilities and Rs. 3,264.09 crore for New Schemes in BE 2015-16. These figures stood at Rs. 23,942.40 crore and Rs. 4,701 crore, respectively in RE 2015-16. The actual expenditure for committed liabilities and new schemes was Rs. 24,334.17 crore and Rs 4,711.50 crore, respectively.

18. During the year 2016-17, BE allocations for committed liabilities and new schemes were Rs. 12,492.92 crore and Rs 2,086.08 crore, respectively, in case of Army. These figures were reduced to Rs. 9,928.56 and Rs. 1,986 crore, respectively in RE 2016-17. For the Navy, these allocations were Rs. 18,763.77 crore and Rs. 1600 crore for BE 2016-17 and Rs. 15,300 crore and Rs. 2,838.75 crore for RE 2016-17. Air Force was given Rs. 24,306.02 crore for Committed Liabilities and Rs. 3,250 crore for New Schemes in BE 2016-17.
19. The Committee have learnt that the additional requirements projected for RE 2016-17 and BE 2017-18 for Committed Liabilities and New Schemes for the three Services were not acceded to by the Ministry of Finance. As per the Ministry of Defence, the reduced allocation will adversely affect the progress of large number of New Schemes which are at Competent Financial Authority (CFA) approval and advanced contract Negotiation Committee (CNC) stages. Delaying these schemes will not only have a cascading effect on the budget of 2017-18, but also result in delays in acquiring capability towards modernisation and bridging existing capability gaps. Further, the reduced allocation will impact cash outgo in committed payments and deferment of these payments will impinge on budgetary allocations in next financial year.
20. The Committee are unhappy to note that though the Ministry of Defence has blamed budgetary cut for negative effect on committed payments and progress of a large number of New Schemes, the trend of expenditure of the funds for Committed Liabilities and New Schemes belies Ministry's claims. It is evident from the fact that for RE 2014-15, the Outlays for New Schemes were kept at Rs. 2,084.15 crore and Rs. 2,644.99 crore for Army and Air Force, but the actual expenditure was only Rs. 1,443.63 crore and Rs. 1,299.47 crore, respectively. Similarly, in RE 2015-16, against the Committed Liabilities outlay of Rs. 9,875.21 crore, only Rs. 8,705.82 crore was utilized by Army. For RE 2015-16, the allocated funds for New Schemes were Rs. 3,160.07 crore and Rs. 1,193.38 crore for Army and Navy, but the actual expenditure was only Rs. 1,438.14

crore and Rs. 591.34 crore, respectively. The underutilization of funds for Committed Liabilities and New Schemes by the three Services pinpoints to the fact that the institutional mechanisms put in place for financial planning and monitoring utilization of funds is not effective. Though it is earnest desire of the Committee that adequate allocations should be made for Committed Liabilities and New Schemes for enabling modernization of the forces, the Committee cannot help but fervently urge the Ministry of Defence to be more prudent in their budget formulation and expenditure planning.

Defence Procurement Procedure 2016

21. The Committee note that the Defence Procurement Procedure (DPP) has been revised in 2005, 2006, 2008, 2009, 2011 and 2013, enhancing the scope to include 'Make', 'Buy and Make (Indian)' categories, concept of 'Offsets' and Ship Building procedure. In order to achieve enhanced self-reliance in defence manufacturing and to leverage the economic opportunity present in developing the Indian defence industry, MoD constituted a Committee of Experts, to recommend suitable amendments to DPP-2013. Based on Government's experience in the Defence procurement process and the recommendations of the Committee of Experts, DPP 2016 has been evolved. The main preferred category in the Defence Procurement Procedure is now 'Buy Indian-Indian Designed, Developed and Manufactured (IDDM)' which is a new category. 'Buy (Indian-IDDM)' category refers to the procurement of products from an Indian vendor meeting one of the two conditions: products that have been indigenously designed, developed and manufactured with a minimum of 40% Indigenous Content (IC) on cost basis of the total contract value or products having 60% IC on cost basis of the total contract value, which may not have been designed and developed indigenously. The Committee appreciate the intentions of the new Defence Procurement Procedure to ensure timely procurement of military equipment, systems

and platforms as required by the Armed Forces in terms of performance capabilities and quality standards through optimum utilisation of allocated budgetary resources, provision for the highest degree of probity, public accountability, transparency, fair competition and level-playing field and pursuance of self-reliance in defence equipment production and acquisition and sincerely hope that the Ministry will leave no stone unturned in realising the noble objectives of DPP 2016.

Long gestation period in procurements

22. As per the Ministry of Defence's submission, procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness. The Committee note that various provisions viz. reduction of timelines from 80-117 to 70-94 weeks, reduction in Acceptance of Necessity validity from 1 Year to 6 Months, accompaniment of draft Request for Proposal with Statement of Case for Acceptance of Necessity, conducting of Field Trials in conditions where equipment most likely to be deployed, maximum use of certification and simulations, delegation of powers to Acceptance of Necessity according authorities, Fast Tracking of Procedure for expeditious procurement of urgent operational requirement items in war and peace, exist in Defence Procurement Procedure 2016 for achieving timely, efficient and effective procurement. During oral evidence, the Defence Secretary also briefed the Committee on the steps taken to fasten the process of Defence procurement. The Services are now fully authorised to take up any revenue procurement of ammunition upto a minimum level of 10 (I) war situation. Further, the Cabinet Committee on Security has accepted the proposal of the Ministry for enhancing its capital procurement powers from Rs. 500 crore to Rs. 3,000 crore. The Committee are glad to note that some progress is being made by the Ministry of Defence to correct systemic deficiencies in defence procurement deals but would like to see concrete and

coordinated action so that that the Ministry's various measures do not remain mere ink on paper and our Forces are equipped with state-of-the-art equipments/weapons/platforms.

Probity, Accountability and Transparency in defence procurement

23. The Committee have been informed that the Ministry of Defence has given provisions such as formulation of guidelines for penalties in business dealings with entities including Policy on putting on hold, suspension and debarment for corrupt practices, unfair means etc., execution of Pre-contract Integrity Pact (PCIP) for all cases above Rs. 20 crore, complaints regarding violation of PCIP to be looked into by independent monitors, guidelines for handling of complaints being time bound, aligned to Central Vigilance Commission/ Department of Personnel and Training (DoPT) guidelines and in keeping with Government policy, ascertaining vigilance status of L1 vendor before seeking Competent Financial Authority (CFA) approval, calling off negotiations, cancellation of contract, encashment of bank guarantee and debarment from future procurement due to violation of guidelines etc., for ensuring probity, accountability and transparency in defence procurement cases. While appreciating the Ministry's steps to ensure corruption free defence deals, the Committee would desire the Ministry to not abstain from stern punitive action against violation of set guidelines for probity, accountability and transparency in procurement cases as this would send a strong message to offenders trying to threaten the security of our Nation.

Dependence on foreign suppliers for military hardware

24. Modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment defence capabilities and the budget for the same is taken from the Capital segment of the defence budget. However, the Committee are anxious to note that requirement of weapons and equipments for our Forces are being met largely through import. The major defence equipments imported during the last three years include rockets,

simulators, Armament Repair facility for EKM, submarines and component level repair facility for Tanks from Russia, Unmanned Aerial Vehicles, Radar, fire control system for tanks and missiles from Israel, aircraft, helicopters and simulators from USA And Bimodular Charge system(BMC) High Zone Modules of Artillery Guns from France. As per the data supplied by the Ministry, the total expenditure for Army for direct payments to foreign vendors for Capital Acquisitions is Rs. 1,659.36 crore, Rs. 800.39 crore, Rs. 424.82 crore, Rs. 884.84 crore, Rs. 1,365.71 crore, Rs. 3,452.61 crore and Rs. 3,004.91 crore in 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16, respectively. Similarly, the Navy spent Rs. 4,576.83 crore, Rs. 4,746.88 crore, Rs. 6,532.37 crore, Rs. 5,968.80 crore, Rs. 12,577.81 crore, Rs. 6,884.00 crore and Rs. 6,939.76 crore in 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16, respectively, for importing military equipment. As for the Air Force, an amount of Rs. 4,226.28 crore, Rs. 4,364.82 crore, Rs. 15,258.11 crore, Rs. 19,220.95 crore, Rs. 20,927.55 crore, Rs. 14,655.75 crore and Rs. 12,477.45 crore in 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16, respectively, was spent on import of weaponry from foreign vendors. The Committee note that in the last seven financial years (2009-10 to 2015-16), total expenditure for the three Services for direct payments to foreign vendors for Capital Acquisitions was Rs. 1,50,950 crore.

25. The Committee note that Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the Defence Procurement Procedure. Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. During the last two financial years (2014-15 and 2015-16), 108 contracts with total value of Rs. 1,12,736.81 crore have been signed for capital procurement of defence equipment, out of which 73 contracts involving a value of Rs. 72,303.34 crore were signed with Indian Vendors and 35 contracts involving a value of Rs. 40,433.47 crore were signed with Foreign Vendors. The Committee also note the candid submission of the Defence Secretary where he attributed heavy dependence of Air Force on foreign equipments to the lack of requisite

sophisticated equipments in our country. The Committee understand that our Forces need to resort to import arms and equipment to meet current security challenges of the Nation but cannot help noting that heavy reliance on import does not provide long-term solution to our security requirements. Further, import of defence capital acquisition also leads to depletion of valuable forex reserve. Hence, the Committee hope that the Ministry of Defence now armed with Defence Procurement Policy 2016, would take urgent and concerted steps to arrest the import of arms and equipment and encourage domestic defence industrial base.

Import content in equipment produced, and developed by DRDO, Ordnance Factories and DPSUs

26. The Committee are concerned to note that the import component and value of the Defence equipment manufactured and developed by Defence Public Sector Undertakings (DPSUs) is substantial. To illustrate, in case of Hindustan Aeronautics Limited (HAL), the import component is said to range from 44 to 60 per cent; 36 to 44 per cent in case of equipment manufactured by Bharat Electronics Limited (BEL) and almost 20 percent in case of equipment manufactured by Bharat Earth Movers Limited (BEML), from 2013-14 to 2015-16;. Further, the import component of Ships manufactured by Hindustan Shipyard Limited (HSL) is informed to be 21 per cent in 2016-17, 14.51 to 35.50 per cent for ships produced/delivered by Goa Shipyard Limited (GSL) and 28 to 58 per cent in case of Ships manufactured by Mazagon Dock Shipbuilders Limited (MDL). Ordnance Factory Board's import content during the last three financial years stands at 8.9 per cent to 15.15 per cent.

27. The Committee note that Defence Public Sector Undertakings (DPSUs) and Ordnance Factories Board (OFB) are main pillars of indigenous development and production of defence arms and equipment. Therefore, they earnestly desire that for increasing our self-reliance in defence production, the DPSUs and the OFB should leave no stone unturned in supplying State-of-the-Art

equipments to our Defence personnel within a fixed time framework and reducing the import content in the military equipment manufactured indigenously.

Make-in-India policy and Self-reliance in Defence Production

28. The Committee note that 'Defence Manufacturing' is one of the identified sectors under the 'Make in India' programme of the Government of India which aims to facilitate investment, foster innovation, protect intellectual property, and build best-in-class manufacturing infrastructure. Defence Production Policy promulgated in 2011, aimed at achieving substantive self-reliance in the design, development and production of equipment, weapon systems, platforms required for defence in as early a time frame as possible; creating conditions conducive for the private industry to take an active role in this endeavour; enhancing potential of Small and Medium Enterprises (SME) in indigenisation and broadening the defence R&D base of the country.

29. In pursuance of this policy, the new Defence Procurement Procedure (DPP) 2016 has been promulgated for capital procurements and has come into effect from 1st April, 2016. DPP-2016 has a focus on achieving the 'Make in India' vision by according priority to 'Buy Indian-IDDMM' (Indigenously Designed, Developed and Manufactured), 'Buy (Indian)' & 'Buy and Make (Indian)' categories. It also focuses on enhancement and rationalization of indigenous content. The 'Make' Procedure has been simplified with provisions for funding of 90 % of development cost by the Government to Indian industry and reserving projects not exceeding development cost of Rs. 10 crore (Government funded) and Rs. 3 crore (industry funded) for Micro, Small and Medium Enterprises (MSME).

30. However, admittedly, there is no allocation of budget for 'Make in India' Project as the budget allocation is made for the total acquisition of defence equipment requirements of the Services. The proposals for capital acquisition in DPP are categorised as 'Buy (Indian-IDDMM)', 'Buy (Indian)' & 'Buy and Make (Indian)', with preference over 'Buy (Global)' category, to make the

country self-reliant in defence production after deliberations in various Committees such as Services Capital Acquisition Categorization Committee (SCAPCC) / Services Capital Acquisition Categorization Higher Committee (SCAPCHC) / Defence Procurement Board (DPB) / Defence Acquisition Council (DAC). There is no 'Make in India Project' category for procurement as per DPP, however, the objectives of 'Make in India' initiative of the Government are pursued through procurements under 'Buy (Indian-IDD)' , 'Buy (Indian)' , 'Buy and Make (Indian)' and 'Make' categories of capital procurement.

31. The Committee appreciate the various policy measures taken by the Government to achieve self-reliance in defence design and production. For instance, Foreign Direct Investment (FDI) Policy under which Foreign Investment Cap is allowed through automatic route upto 49% and Government route beyond 49% wherever it is likely to result in access to modern technology or for other reasons to be recorded. The Defence Products List for the purpose of issuing Industrial Licenses (ILs) under Industries (Development and Regulation) Act has been revised and most of the components, parts, sub-systems, testing equipment and production equipment have been removed from the List, so as to reduce the entry barriers for the industry, particularly small & medium segment. The list of military stores has been finalized and put in the public domain so as to make the process transparent and unambiguous. The process of receiving applications for NOC for export of military stores and for issuing NOC has been made online to reduce the delay and to remove human interface in the process. The preferential treatment given to Defence Public Sector Undertakings in excise duty / custom duty has been discontinued. As per the revised policy, all Indian industries (public and private) are subject to the same kind of excise and custom duty levies. The Committee would like to see the tangible results of these measures in the form of substantive self-reliance in the design, development and production of equipment, weapon systems, platforms required for defence in reasonable timeframe. In this regard, the Ministry

should implement these measures on a war footing to ensure that India does not remain the largest importer of defence equipment in the world.

Private Sector Participation

32. As per the Ministry of Defence, several policy changes have been made recently to ease the entry of private sector in defence manufacturing. These include liberalisation of FDI policy and Industrial Licensing policy, simplification of export procedures, streamlining of defence offset guidelines and creating level playing field for Indian private and public sector companies. Reportedly, these initiatives of the Government will help encourage private sector participation in defence with special focus on MSMEs, thereby reducing dependence on imports.

33. Further, the Government has issued 342 Industrial Licenses (ILs) covering 205 companies for manufacture of a wide range of defence products, to Indian companies till June 2016; 52 licensee companies covering 83 licenses have so far reported commencement of production. Out of 342 ILs, 116 ILs have been issued since the launch of Make in India initiative. DRDO has created infrastructure and a management structure to develop, manage and integrate high-cost and high-technology programmes and projects by pooling national resources and expertise available in academic institutions, R&D centres, public and private industries. It has a strong partnership with approximately 110 academic institutions, 20 national S&T agencies, 50 Public Sector Undertakings (PSUs), 39 Ordnance Factories (OFs) and more than 800 private sector industries.

34. Government of India has also set up the 'Technology Development Fund (TDF)' which aims at funding the development of defence and dual use technologies that are currently not available with the Indian defence industry, or has not been developed so far. The funding is to public and private sector industry especially MSMEs that may work in collaboration with the academia or research institutions to carry out innovation, research and development. The scheme envisages creating an Eco-system for enhancing cutting edge technology capability for Defence application and to inculcate R&D culture in MSMEs. In addition, under the 'Make' Category of Defence

Procurement Procedure, there is a provision for collaboration between Government and private Indian Industry where 90% of cost of prototype development shall be borne by Government.

35. The Committee appreciate the intention of the Ministry in introducing several initiatives to enhance potential of MSMEs and private sector in indigenous defence production and broaden the defence R&D base of the country. However, they recommend that the Ministry should constantly monitor the performance of such MSMEs and private sector and extend all possible support to them whenever required.

Strategic Partnership for various platforms from the Private Sector Industry

36. The Committee note that the Expert Committee under the Chairmanship of Shri Dhirendra Singh recommended a 'Strategic Partnership' model for creating capacity in the private sector on a long-term basis in six strategic segments such as aircraft/helicopters, warships/submarines, armoured vehicles, missiles, command control systems and critical materials. It recommended the constitution of a Task Force chaired by Dr. Aatre for laying down the criteria for selection of Strategic Partners in the aforementioned six segments. Strategic Partnerships would not only be long term relationships between an Indian private sector entity and the MoD but would also be critical from the perspective of achieving self reliance in respect of national security and defence production apparatus of the country. The Task force submitted its Report in January 2016. During oral evidence in connection with examination of Demands for Grants 2017-18, a representative of the Ministry submitted that the policy for 'Strategic Partnership' is under finalisation by MoD. The Committee, in this regard, recommend that this policy on 'strategic partnership' should be finalised by the Ministry of Defence at the earliest in consultation with all stakeholders and experts and accordingly apprise the Committee.

Offset Clause

- 37. Defence Procurement Procedure (DPP) stipulates provision for the offset clause in 'Buy (Global)' or 'Buy and Make' categories of Defence Acquisition where the indicative cost of acquisition is Rs. 2000 Crore or more on the date of AON. The provision of obligatory Offset discharge in defence acquisitions was included as part of DPP since 2005. Under this scheme, a contractual responsibility is cast upon the foreign vendors in capital acquisition program to mandatorily fulfil offset obligations by opting any one or a combination of methods as given in Defence Offset Guidelines through their selected eligible Indian Offset Partners. The required value of offset obligation is 30% of the estimate cost of acquisition in 'Buy (Global)' and 30% of the foreign exchange component in 'Buy and Make' categories of procurements. The obligations may be discharged with reference to eligible products and eligible services as listed out in the DPP 2016.**
- 38. As per the information furnished by the Ministry of Defence, as on 31st December 2016, 35 offset contracts (22-IAF, 10-IN and 3-IA) have been signed. The total offset obligations is US\$ 10.4 billion approx (contracts with different denominations converted to USD) to be discharged over a period extending upto 2024. The contracted obligations to be discharged as per schedule till December 2016 amounts to US\$ 2.7 billion approx. against which the vendors have reported discharge claims worth US \$ 2.01 billion approx. These offset contracts are under different stages of implementation by the foreign Original Equipment Manufacturer (OEM).**
- 39. The Committee note that once executed, it is estimated that the respective contract shall cause, on account of offset provisions, generation of substantial business to Indian industries thus strengthening the defence industrial base. It shall also enable the Indian domestic industry to be a vital part of the supply chain of the major global defence industries by becoming key players in the highly competitive and cost conscious international defence market in their respective areas of expertise. Further, through the banking provisions, the OEMs are likely to invest more in Indian Industries even in absence of any acquisition contract which is expected to spur growth in defence and synergistic sectors.**

40. According to the Ministry of Defence, some notable changes in the existing offset provisions in new DPP are as follows:- The offsets are applicable to capital acquisition categorised as 'Buy Global' and 'Buy and Make'; the threshold for offsets applicability has been enhanced to Rs. 2000 Crore from Rs. 300 Crore ; the vendor has an option of providing Indian Offset Partner (IOP) wise work share, specific products and supporting documents for IOP credentials either at Technical Offset Evaluation Committee (TOEC) or one year prior to discharge or at the time of seeking credits; and any vendor failing to implement the offset obligations will be liable for action under the relevant provisions of DPP.

41. The Committee, in this context, recommend that the Ministry strictly and continuously monitor discharge of mandatory offset obligations by the foreign vendors and not hesitate in initiating stringent action against the defaulters.

Defence Planning

42. The Defence Five Year Plans are formulated to chalk out the necessary steps to maintain and augment defence capabilities in line with the Raksha Mantri's Operational Directives, the Long Term Perspective Planning and the current threat perception. These plans help to estimate the outlay required to achieve the planned objective. The plan period of 10th Plan was 2002-07, 11th Plan was 2007-12 and 12th Plan was 2012-17. To the utter surprise of the Committee, these Plans did not receive Government approval. However, the Ministry claimed that activities included in the Plans proceeded during the Plan period within the available budget allocations and projections in respect of annual budgets were made in line with Five Year Plans and available allocations were prioritized accordingly.

43. As per the Ministry of Defence, while formulating guidelines for the 13th Defence Plan it was decided that the Plan may not be sent to Ministry of Finance for information only and not for its approval. The Ministry of Finance will be kept in loop about the requirements of the Defence

Forces in the coming years. It is further submitted by the Ministry that discontinuation of Five year Plans and Plan/Non-Plan Expenditure would have no impact on resource estimation/implementation of projects. Five year Defence Plans are still being prepared in which future requirements of the Services are projected. Activities planned are likely to proceed according to available annual budget allocations. As such, planned projects were implemented to the extent possible with the available allocations.

44. The Committee feel that the claims of the Ministry of carrying planned activities and projects as per the available budget allocations and projections in respect of annual budgets made in line with Five Year Plans are betrayed by the trends of underspending and imbalanced revenue to capital ratio which have been highlighted in the earlier Recommendations of the Committee. Hence, the Committee desire that the Ministry should adopt measures for foolproof budgetary planning and implementation.

Long Term Integrated Perspective Plan (LTIPP)

45. The Committee note that the Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027 is in vogue and has been approved by the Defence Acquisition Council. Proposals for acquisition of capital Assets flow out from the defence procurement planning process which covers the 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP). The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year roll on plan for capital acquisition and consists of the schemes from the approved five year SCAP. Thus, LTIPP gets finally translated to short term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in SHQ and MoD. Amendments are made to the DPP, as and when required, to

streamline the acquisition process. DPP-2016 is focused on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to 'Make in India' initiative of the Government of India, by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems.

46. The Committee note that in the budget on capital acquisition of defence equipment for the period of 2016-17 during the 12th Plan period, an amount of Rs. 53,583.04 crore has been expended till December, 2016 against the BE allocation of Rs. 78,731.32 crore. The Committee would like to know the status of the expenditure at the conclusion of this financial and whether aspects relating to cost escalation due to inflation have been taken into account in allocation of funds for Capital Acquisition for 2017-18.

Married Accommodation Project

47. Directorate General of Married Accommodation Project (DG MAP) was raised by Government of India under the aegis of Engineer in Chief to construct married accommodation for the three services, with the aim of eradicating the deficiency of married accommodation for service personnel. The MAP was setup to fulfill the promise made to the Armed Forces by the Government of India. The total deficiency of two lakh dwelling units has been slated for construction in four phases. With the approval of the Cabinet on Security (CCS), three Committees, i.e. Apex Steering Committee (ASC), Vice Chief Committee (VCC) and Command Committee (CC) have been set up with enhanced financial powers for speedy decision making.

48. The Committee note that as regards the construction of dwelling units under Phase II of MAP, 80% progress has been achieved so far. Before the launch of the Phase III, Phase I and II were evaluated and a committee headed by Vice Admiral Murugesan submitted the report in this regard. The Committee are disappointed to note that implementation of Phase II was not satisfactory, as admitted by the Defence Secretary himself. He also submitted that there is no

constraint of funds for Phase III of MAP. In this regard, the Committee recommend that in light of recommendations of Vice Admiral Murugesan Committee and dissatisfaction with implementation of Phase II of MAP, timely and effective execution of Phase III must be accorded top priority.

49. As regards the authorization of Married Accommodation and satisfaction level of the Officers and Other Ranks, the Committee have been apprised that 35 per cent of the jawans are authorized for married accommodation. It was further intimated that after the completion of MAP Phase II, the percentage of satisfaction for the Army would touch 68 per cent, for the Navy about 96 per cent and for the Air Force 82 per cent. The Committee earnestly hope that DG MAP would strive to work in the direction of achieving 100 percent satisfaction in the three Services as the issue of provision of married accommodation is innately connected with welfare of those who serve our Nation.

50. The Committee note that the shear wall and pre-cast technology are being used for construction of dwelling units under MAP. Reportedly, this technology is entirely made in India, is cost effective, less labour intensive, much better at pollution control and earthquake resistance. If there are about 3,000 dwelling units to be constructed, it will be about 10 per cent cheaper than the conventional frame structure. The Committee hope that use of this new technology will result in speedier and efficient construction of dwelling units for authorized personnel.

NEW DELHI;
3 March, 2017
12 Phalguna, 1938 (Saka)

MAJ GEN B C KHANDURI, AVSM (RETD),
Chairperson,
Standing Committee on Defence

STANDING COMMITTEE ON DEFENCE (2016-17)

MINUTES OF THE SEVENTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2016-17)

The Committee sat on Wednesday, the 22 February, 2017 from 1100 hrs. to 1740 hrs. in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Maj Gen B C Khanduri, AVSM (Retd) - **Chairperson**

Lok Sabha

2. Shri Dipak Adhikari (Dev)
3. Shri Suresh C Angadi
4. Shri Thupstan Chhewang
5. Col Sonaram Choudhary(Retd)
6. Shri H D Devegowda
7. Km Shobha Karandlaje
8. Dr Mriganka Mahato
9. Shri Rodmal Nagar
10. Shri A P Jithender Reddy
11. Shri Ch Malla Reddy
12. Shri Rajeev Satav
13. Smt Mala Rajya Lakshmi Shah
14. Shri Partha Pratim Ray
15. Shri Dharambir Singh
16. Smt Pratyusha Rajeshwari Singh

Rajya Sabha

17. Shri Rajeev Chandrasekhar
18. Shri Madhusudan Mistry
19. Shri Sanjay Raut
20. Smt Ambika Soni
21. Dr Subramanian Swamy

SECRETARIAT

1. Smt Kalpana Sharma - Joint Secretary
2. Shri TG Chandrasekhar - Director
3. Smt Jyochnamayi Sinha - Additional Director
4. Shri Rahul Singh - Under Secretary

WITNESSES

REPRESENTATIVES OF THE MINISTRY OF DEFENCE

1. Shri G Mohan Kumar, Defence Secretary
2. Shri A.K Gupta, Secy(DP)
3. Shri Prabhu Dayal Meena, Secy(ESW)
4. Dr. S. Christopher Secy (R&D)
5. Shri Sunil Kumar Kohli, FA (DS)
6. Smt. Smita Nagaraj, DG(Acq)
7. Shri J.R.K. Rao, Addl. Secy.(J)
8. Ms. Surina Rajan, Addl. Secy. (DP)
9. Smt. Anuradha Mitra, FA (Acq)
10. Lt Gen Sarath Chand, VCOAS
11. Vice Admiral Karambir Singh, VCNS
12. Air Mshl SB Deo, VCAS
13. Air Marshal RKS Bhadauria, DCAS
14. Air Mshl HS Arora,DGAO
15. Air Vice Mshl J Chalapati, ACAS(Projects)
16. Air Vice Mshl Pothureddy Subhash Babu, ACAS(Fin Plg)
17. VAdm Ajit Kumar P, DCIDS(PP&FD)
18. Lt. Gen Vinod Vashisht, DG NCC
19. Lt Gen Nimbhorkar, MGO
20. Lt Gen PM Bali, DG PP
21. Lt Gen Subrata Saha, DCOAS
22. Shri J. Janardhan, Spl. DG
23. Shri Sanjay Prasad, JS(LS)
24. Shri Deepak Anurag, JS&AM(LS)
25. Shri Jayant Sinha, JS&AM(MS)
26. Shri Rajeev Verma, JS&AM(Air)
27. Smt Devika Raghuvanshi, JS(Navy)
28. Shri Vijayendra, JS(DOMW)
29. Shri A.N. Das, Addl FA & JS
30. Shri Subir Mallick, Addl FA & JS
31. Shri Ravi Kant, JS(ESW)
32. Shri Ashwini Kumar, Addl. FA(AK)& JS
33. Smt. Dharitri Panda, Addl. FA(DP) & JS
34. Shri R.K. Karna, Addl. FA(RK) & JS
35. Air Mshl HS Arora,DGAO
36. Air Vice Mshl J Chalapati, ACAS(Projects)
37. Air Vice Mshl BR Krishna, ACAS(Plan)
38. Air Vice Mshl Pothureddy Subhash Babu, ACAS(Fin Plg)
39. AVM H J Walia, Addl. Director General/NCC
40. Rear Admiral DK Tripathi, ACNS(P&P)
41. Maj Gen SS Hasabnis-TM (LS)
42. Maj Gen VS Sreenivas, ADG Proc
43. Maj Gen Sanjay Thapa, Offc DGFP
44. Maj Gen Anil Puri, DDG(A)
45. Maj Gen PM Vats, ADG WE

46. Smt. Amrita Sharan, DDG (P&B)
47. IG VD Chafekar, DDG(P&P)
48. Capt. Prakash Gopalam, DNP
49. Brig Sanjay Puri, DDG &PP(Plans)
50. Col Puneet Aggarwal, Dir PP (Lgs)
51. Smt. Maulishree Pande, Dir(Fin/Bud)
52. Shri A.N. Das, Addl FA & JS
53. Shri Ravi Kant, JS(ESW)
54. Shri S.C Bajpai, DGOF& Chairman/OFB
55. Shri Saurabh Kumar, Member (A&E)/OFB
56. Shri D.K. Mahapatra, Secretary/OFB
57. Sh. N.I. Laskar, Director(Budget), OFB
58. Ms Santosh, JS(Resettlement II, ESW)
59. Maj Gen A.P Bam, Managing Director, ECHS
60. Maj Gen Jagatbir Singh, DGR
61. Brig. M.H. Rizvi, Secretary
62. Lt Gen harish Thukral,DG(DC&W)
63. Cmde Gangesh Kumar, DGR Office
64. Gp Capt M Vijay, Director, DGR Office
65. Maj Gen Jagtar Singh, ADGAFMS(E&S)
66. Brig Subodh Mulgund, DDGAFMS(Stdn)
67. Shri Rajib Kumar Sen, Economic Advisor
68. Shri K.C Meena, DFA(Pension)
69. Smt Kusum Singh, JS(P&C)
70. Shri V Udaya Bhaskar, CMD
71. Dr. T. Suvarna Raju,CMD, HAL
72. Shri M. V Gowtama, CMD, BEL
73. RAdm (Retd) L V Sarat Babu, CMD,HSL
74. Shri D.K Hota, CMD,BEML
75. RAdm (Retd) Shekhar Mital, NM, CMD,GSL
76. CMDE R Ghosh (Retd), CMD,GRSE
77. Dr. D.K Likhi, CMD,MIDHANI
78. Cmde Rakesh Anand (Retd) CMD,MDL
79. Air Mshl HS Arora, DGAO
80. Shri DM Deshpande, CWP&A
81. Shri P Upadhyay, PDONA
82. Dr. JP Singh, Director, DPA
83. Brig Pradeep Arora, Dir,DoS
84. Shri V.K. Deshpande, AGM(PIg),GSL
85. Shri Sanjay Garg, JS(DIP)

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them of the agenda for the Sitting. The Committee then invited the representatives of the Ministry of Defence and the Defence Services. The Chairperson welcomed the representatives to the Sitting of the Committee and drew their attention to Direction 55(1) of Directions by the Speaker, Lok Sabha.

3. Thereafter, the Chairperson requested the representatives of the Ministry of Defence to brief the Committee on various issues included in the agenda for the day. The Defence Secretary initiated the discussion by briefly touching upon Defence Services Estimates and other Demands for grants of the Ministry of Defence.

4. The Defence Secretary apprised the Committee about the steps taken by the Ministry to enhance allocation from the Ministry of Finance.

5. Further, a Power Point Presentation on General Defence Budget was made before the Committee. This was followed by detailed deliberations on the following issues:

- (i) Inadequate budgetary provision to Defence in this year's Budget Estimates;
- (ii) Process of preparing the Budget, resource mobilization and allocation of funds and assessment of requirements of the Services and other organizations;
- (iii) Making Capital Budget as 'roll on and non-lapsable';
- (iv) Budget outlay on modernisation of Forces; and
- (v) Slow pace of expenditure by the Ministry of Defence as stated by the Ministry of Finance.

6. Thereafter, a Power Point Presentation on Defence Procurement Policy was made. This was followed by extensive discussion on the following points:

- (i) The newly-formulated Defence Procurement Procedure (DPP 2016);
- (ii) Strategic partnership with private sector;
- (iii) Roadmap for 'Make in India';
- (iv) Dependence on import for arms and other defence equipment; and
- (v) Support to Medium, Small and Micro Enterprises (MSME) in area of defence production.

7. Afterwards, the Ministry gave a Presentation on National Cadet Corps (NCC) and Sainik Schools in that order. This was followed by detailed discussions on the subjects and Members raised queries on the following issues:

- (i) Percentage of NCC cadets who choose Defence Forces as their career;
- (ii) Steps being taken to encourage students to join the Defence Forces;
- (iii) Waiting list of schools for NCC units; and

- (iv) Expansion of Sainik Schools.

The Committee took break for lunch and resumed the Sitting at 2:30 P.M.

8. After the lunch, the Vice Chief of Army Staff briefly touched upon the issue of threat perception from the point of view of the Army. Then, a Presentation was made on Army. This was followed by detailed discussions on the subject and Members raised queries on the following issues:

- (i) Allocation of funds in BE 2017-18, which was lesser than projection;
- (ii) Modernization process of the Services; and
- (iii) Approval of the proposals of the Ministry of Defence pending with the Ministry of Finance, etc.

9. Thereafter, a Presentation was made on Air Force and pursued with deliberations on the subject which included issues such as the following:

- (i) Inadequate Budgetary Provisions;
- (ii) Shortage of Squadrons; and
- (iii) Expansion of Training facilities; etc.

10. Thereafter, Presentation on Directorate General of Quality Assurance (DGQA) was made, which was followed by discussion on the following points:

- (i) Transfer of some functions of DGQA to the manufacturing organisations;
- (ii) Introduction of third party inspection agencies; and
- (iii) Monitoring of quality of defence products, etc.

11. Thereafter, a Power Point presentation on Defence Public Sector Undertaking and Ordnance Factory Board (OFB) was made. This was followed by extensive discussion on the subjects which included the following:

- (i) Benefit to DPSUs by the introduction of a new category of 'Buy Indian IDDM' in new procurement procedure;
- (ii) Updating the capabilities of DPSUs and OFB both in manufacturing and design;

- (iii) Quality and timely delivery of ammunition by OFB etc.; and
- (iv) Downward trend in financial performances of some of the DPSUs.

12. Thereafter, a presentation was made on Ex-Servicemen Welfare and Ex-Servicemen Contributory Health Scheme and pursued with deliberations on the subject which included issues such as the following:

- (i) Opening of ECHS Polyclinics in more parts of the country;
- (ii) Resettlement of Ex-Servicemen with specific reference to Lateral induction of Servicemen in Central Para Military Forces and State Police Forces;
- (iii) Non-payment of bills of private hospitals;
- (iv) Misuse of ECHS facilities, etc.

13. The representatives of the Ministry of Defence replied to various queries/observations of Members. The Chairperson directed the representatives of the Ministry of Defence to furnish written replies to all the queries at the earliest.

A copy of verbatim record of the proceedings has been kept.

The Committee then adjourned.

STANDING COMMITTEE ON DEFENCE (2016-17)

MINUTES OF THE EIGHTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2016-17)

The Committee sat on Thursday, the 23 February, 2017 from 1100 hrs. to 1730 hrs. in Committee Room No. 53, Parliament House, New Delhi.

PRESENT

Maj Gen B C Khanduri, AVSM (Retd)

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Chairperson

Lok Sabha

2. Shri Suresh C Angadi
3. Shri Thupstan Chhewang
4. Col Sonaram Choudhary(Retd)
5. Shri H D Devegowda
6. Km Shobha Karandlaje
7. Dr Mriganka Mahato
8. Shri Rodmal Nagar
9. Shri A P Jithender Reddy
10. Ch Malla Reddy
11. Shri Rajeev Shankarrao Satav
12. Smt Mala Rajya Lakshmi Shah
13. Shri Partha Pratim Ray
14. Shri Dharambir Singh

Rajya Sabha

17. Shri Rajeev Chandrasekhar
18. Shri Madhusudan Mistry
19. Shri Praful Patel
20. Smt Ambika Soni
21. Dr Subramanian Swamy

SECRETARIAT

1. Smt Kalpana Sharma - Joint Secretary
2. Shri TG Chandrasekhar - Director
3. Smt Jyochnamayi Sinha - Additional Director
4. Shri Rahul Singh - Under Secretary

WITNESSES

List of Officers/representatives who attended the Sitting:-

1. Shri G Mohan Kumar, Defence Secretary
2. Air Marshal RKS Bhadauria, DCAS
3. Air Mshl HS Arora, DGAO
4. Air Mshl SB Deo, VCAS
5. Air Vice Mshl BR Krishna, ACAS(Plan)
6. Air Vice Mshl J Chalapati, ACAS(Projects)
7. Air Vice Mshl Pothureddy Subhash Babu, ACAS(Fin Plg)
8. AVM TP Singh, ACIDS(FP)
9. Brig Anurag Bhasin, DDG 'B', MAP
10. Brig K K Repswal, DDGW (PPC & Est)
11. Brig KC Panchanathan, DDG MO(C)
12. Brig Pradeep Arora, Dir,DoS
13. Brig Subodh Mulgund, DDGAFMS(Stdn)
14. Brig MH Rizvi, Secretary
15. Brig RK Sharma, DDG(TP)
16. Capt Satish Vasudevan, DNP
17. Cdr Praveen Varma, JDNP
18. Cmde Gangesh Kumar, DGR Office
19. Cmde Karunesh Kaushik, DACIDS(Bud)
20. CMDE R Ghosh (Retd), CMD,GRSE
21. Cmde Rakesh Anand (Retd) CMD,MDL
22. Col Rajeev Kapoor, Director(Budget)
23. Comdt Alok Negi, JD(Plans)
24. DIG Mukesh Purohit, PD(P&B)
25. Dr Subhash Chandra Sati, DG (NS & M)
26. Dr Zakwan Ahmed, CCR&D(R&M& Imp)
27. Dr Chitra Rajagopal, CCR&D (SAM)
28. Dr CP Ramanarayanan, DG(Aero)
29. Dr DK Likhi, CMD,MIDHANI
30. Dr G Athithan, DG (MED & CoS)
31. Dr G Satheesh Reddy, DG (MSS)
32. Dr Guru Prasad, CCR&D(PC& SI)
33. Dr JP Singh, Director, DPA
34. Dr Mala Iyengar, IFA (R&D)
35. Dr S Christopher Secy (R&D)
36. Dr Shashi Bala Singh, DG (LS)
37. Dr T Suvarna Raju,CMD, HAL
38. Dy Comdt Niranjan Pratap Singh, ADC to DGICG
39. Gp Capt M Vijay, Director, DGR Office
40. IG VD Chafekar, DDG(P&P)
41. Lt Gen AK Bhatt, DGMO
42. Lt Gen harish Thukral,DG(DC&W)
43. Lt Gen Sarath Chand, VCOAS
44. Lt Gen SK Shrivastava,DGBR
45. Lt Gen Suresh Sharma, E-in-C
46. LT GEN ASHOK AMBRE,DG LW&E
47. Lt Gen RV Kanitkar, QMG
48. Maj Gen AP Bam, Managing Director, ECHS

49. Maj Gen Jagatbir Singh, DGR
50. Maj Gen Jagtar Singh, ADGAFMS(E&S)
51. Maj Gen Manoj Pande, ADG MO(B)
52. Maj Gen Sanjay Agarwal, DG Works
53. Maj Gen Sanjeev Jain , DG MAP
54. Maj Gen SPS Kohli, ADGW
55. Maj Gen Digvijay Setia, ADG(LW&E)
56. Ms Santosh, JS(Resettlement II, ESW)
57. Ms J Manjula, DG (ECS)
58. Ms Nabanita R Krishnan, Director, P&C
59. Ms Surina Rajan, Addl Secy (DP)
60. RAdm (Retd) L V Sarat Babu, CMD,HSL
61. RAdm (Retd) Shekhar Mital, NM, CMD,GSL
62. Rear Admiral DK Tripathi, ACNS(P&P)
63. Sarath Chandran, Adhikari (RO)
64. Sh M Hafizur Rahaman, CC R&D (TM& HR)
65. Sh NI Laskar, Director(Budget), OFB
66. Shri AK Gupta, Secy(DP)
67. Shri AN Das, Addl FA(AN) & JS
68. Shri Ajay Kumar Sharma, Addl DG
69. Shri Ajay Singh, Chief Executive, CW&E
70. Shri AK Bhateja, Director, BF&A
71. Shri Ashwini Kumar, Addl FA(AK)& JS
72. Shri Bharat Khera, JS(Air/BR)
73. Shri DK Hota, CMD,BEML
74. Shri DK Mahapatra, Secretary/OFB
75. Shri DM Deshpande, CWP&A
76. Shri GS Rajeshwaran, Addl DG
77. Shri JRK Rao, Addl Secy(J)
78. Shri Jiwesh Nandan, JS
79. Shri Jojneswar Sharma, DG
80. Shri KC Meena, DFA(Pension)
81. Shri Kedar Burande, DDG(Adm)
82. Shri M V Gowtama, CMD, BEL
83. Shri P Daniel, Addl DG
84. Shri P Upadhyay, PDONA
85. Shri Prabhu Dayal Meena, Secy(ESW)
86. Shri Prachur Goel, Addl DG
87. Shri Pravin K Mehta, DG (ACE)
88. Shri RK Karna, Addl FA(RK) & JS
89. Shri Rajendra Singh, DG ICG
90. Shri Rajib Kumar Sen, Economic Advisor
91. Shri Ravi Kant, Addl Secy (R)
92. Shri Ravi Kant, JS(ESW)
93. Shri SC Bajpai, DGOF& Chairman/OFB
94. Shri Sanjay Garg, JS(DIP)
95. Shri Saurabh Kumar, Member (A&E)/OFB
96. Shri Subir Mallick, Addl FA & JS
97. Shri Sudhir Mishra, CCR&D (Brahmos)

98. Shri Sunil Kumar Kohli, FA (DS)
99. Shri Surya Praksh, Dir(L&C)
100. Shri V Udaya Bhaskar, CMD
101. Shri VK Deshpande, AGM(Plg),GSL
102. Shri Rahul Dua, Sr Addl DG
103. Smt Devika Raghuvanshi, JS (Navy)
104. Smt Kusum Singh, JS(P&C)
105. Smt Anuradha Mitra, FA (Acq)
106. Smt Dharitri Panda, Addl FA(DP) & JS
107. Smt Maulishree Pande, Dir (Fin/Bud)
108. Smt Shalini Pandey, DDG (C&Crd)
109. Smt Smita Nagaraj, DG(Acq)
110. VAdm Ajit Kumar P, DCIDS(PP&FD)
111. Vice Admiral Karambir Singh, VCNS

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them about the agenda for the Sitting. The Chairperson welcomed the representatives to the Sitting of the Committee and drew their attention to Direction 55(1) of Directions by the Speaker, Lok Sabha.

3. The Chairperson initiated the discussion and requested the representatives of the Ministry of Defence to brief the Committee on various issues included in the agenda for the day.

4. The representatives of the Ministry of Defence commenced their briefing through a PowerPoint presentation on Defence Research and Development. This was followed by detailed deliberations on following issues:

- (i) Allocation of funds and expenditure,
- (ii) Accountability for scientists in DRDO,
- (iii) Efforts towards 'Make in India',
- (iv) Export of DRDO developed equipments,
- (v) grievance resolution mechanism,
- (vi) Involvement of private industry in Defence research, etc.

5. Thereafter, a presentation was given on Navy and Joint Staff which was followed by discussion on following points:

- (i) Shortfall between required and allocated budget,
- (ii) Inadequacies in capital budget,
- (iii) Shortage of manpower,

- (iv) Depletion in fleet strength,
- (v) Obsolescence,
- (vi) Delay in delivery of vessels by Shipyards,
- (vii) National War Memorial,
- (vii) Operational preparedness, etc.

6. Thereafter, a presentation on Coast Guard Organization was made before the Committee. This was followed by queries from Members on various issues which included shortfall in provision of funds of funds and state of coastal security.

The Committee took break for lunch and resumed the Sitting at 1430 hrs.

7. A presentation was made on Directorate General Defence Estate (DGDE) and pursued with deliberations on the subject. Members made various queries on the following points:

- (i) Blocking of roads used by ordinary citizens by DGDE,
- (ii) Encroachment of Defence Lands by civilians and removal of the same with the help of State Governments,
- (iii) Digitisation of records in DGDE,
- (iv) Financial problems of Cantonment boards,
- (v) Non-payment of service charges by Army,
- (vi) Dilapidated condition of schools in Cantonment Boards, etc.

8. The Ministry gave presentation on Military Engineer Services. This was followed by detailed discussions on the subjects and Members asked questions on the following issues:

- (i) Delay in completion of projects,
- (ii) Adoption of state-of-the-art technology, etc.

9. The Ministry made presentation on Married Accommodation Project. This was followed by detailed discussions on the subjects and Members asked questions on the following issues:

- (i) Progress of phase-II and phase-III of MAP,
- (ii) Amendments in MAP works procedure,

(iii) Use of new technologies for construction of dwelling units, etc.

10. Thereafter, a presentation was made on Border Roads Organization (BRO) which was followed by discussion on the following points:

(i) Status of Border connectivity,

(ii) Financial crunch faced by BRO,

(iii) Long Term Roll on Works Plan,

(iv) Maintenance and snow clearance grants, etc.

11. The Chairperson directed the representatives of the Ministry of Defence to furnish written replies to all the queries at the earliest.

A copy of verbatim record of the proceedings has been kept.

The Committee then adjourned.

STANDING COMMITTEE ON DEFENCE

MINUTES OF THE NINTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2016-17)

The Committee sat on Friday, 03 March, 2017 from 1130 hrs. to 1215 hrs. in Committee Room 53, Parliament House, New Delhi.

PRESENT

Maj Gen B C Khanduri, AVSM (Retd) - **Chairperson**

Lok Sabha

2. Shri Suresh C Angadi
3. Shri Shirang Appa Barne
4. Shri Thupstan Chhewang
5. Shri H D Devegowda
6. Shri B. Senguttuvan
7. Shri Rodmal Nagar
8. Shri Ch Malla Reddy
9. Shri Rajeev Shankarrao Satav
10. Smt Mala Rajya Lakshmi Shah
11. Shri Partha Pratim Ray
12. Shri Dharambir Singh
13. Smt Pratyusha Rajeshwari Singh

Rajya Sabha

14. Shri A U Singh Deo
15. Shri Harivansh
16. Shri Madhusudan Mistry
17. Shri Sanjay Raut
18. Smt Ambika Soni
19. Dr Subramanian Swamy

SECRETARIAT

- | | | | |
|---|------------------------|---|---------------------|
| 5 | Smt. Kalpana Sharma | - | Joint Secretary |
| 6 | Shri T G Chandrasekhar | - | Director |
| 7 | Smt Jyochnamayi Sinha | - | Additional Director |
| 8 | Shri Rahul Singh | - | Under Secretary |

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them about the agenda for the sitting. The Committee then took up for consideration the following draft Reports:-

- (i) Twenty-Eighth Report on 'Demands for Grants of the Ministry of Defence for the year 2017-18 on General Defence Budget, Border Roads Organisation, Indian Coast Guard, Military Engineer Services, Canteen Stores Department, Directorate General Defence Estates, Defence Public Sector Undertakings, Welfare of Ex-Servicemen, Defence Pensions and Ex-Servicemen Contributory Health Scheme (Demand No. 19 & 22)'.
- (ii) Twenty-Ninth Report on 'Demands for Grants of the Ministry of Defence for the year 2017-18 pertaining to Revenue Budget of Army, Navy and Air Force (Demand No. 20)'.
- (iii) Thirtieth Report on 'Demands for Grants of the Ministry of Defence for the year 2017-18 pertaining to Revenue Budget of Ordnance Factories, Defence Research and Development Organisation, Directorate General of Quality Assurance and National Cadet Corps (Demand No. 20)'.
- (iv) Thirty-First Report on 'Demands for Grants of the Ministry of Defence for the year 2017-18 on Capital Outlay on Defence Services, Defence Planning and Procurement Policy (Demand No. 21)'.

3. *.....

4. The Committee authorized the Chairperson to finalise the above draft Reports and present the same to the House on a date convenient to him.

The Committee then adjourned.

* Does not pertain to this report.

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